

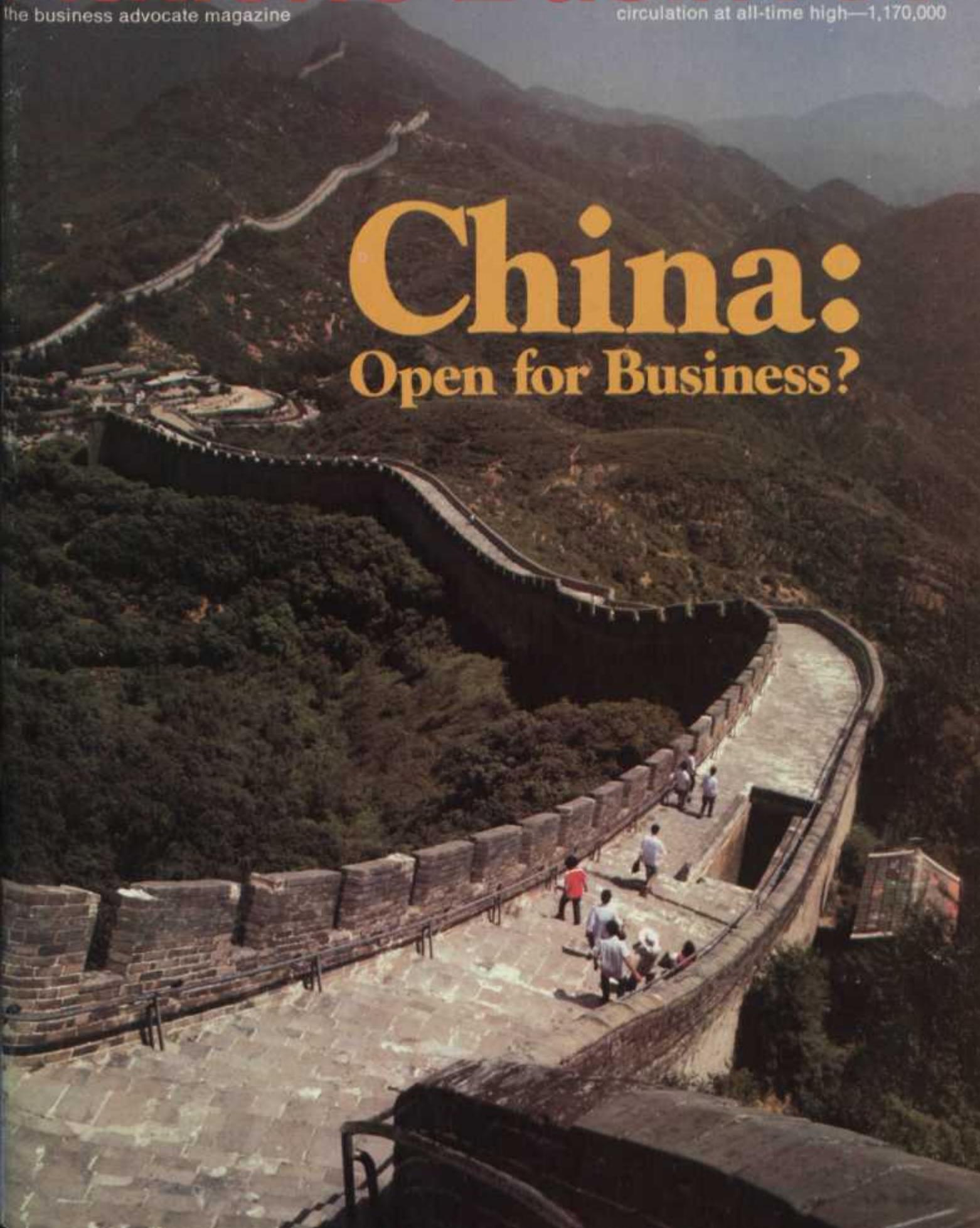
Nation's Business

the business advocate magazine

FEBRUARY 1979

circulation at all-time high—1,170,000

China: Open for Business?



Eldorado

BY CADILLAC



One of the world's best engineered cars...plus.

This is Eldorado at its best—with an unprecedented combination of driving features found on no other U.S. car. **FRONT-WHEEL DRIVE** for impressive traction in rain, snow or sleet. And since the floor is flat, there's added roominess, too. **FOUR-WHEEL INDEPENDENT SUSPENSION** as each wheel reacts independently to road variations for a smooth ride. **FOUR-WHEEL DISC BRAKES** that automatically self-adjust with every application. And an advanced level of sophistication in automotive electronics that combines **ELECTRONIC LEVEL**

CONTROL . . . ILLUMINATED ENTRY SYSTEM . . . TWILIGHT SENTINEL . . . an **ELECTRONIC-FUEL-INJECTED ENGINE** with an on-board analog computer and **ELECTRONIC SPARK SELECTION**. All this standard. There are even side-window defoggers. And a Diesel V8 engine is available. (Eldorados are equipped with GM-built engines produced by various GM Divisions. See your Cadillac dealer for details.) Plus . . . Cadillac craftsmanship, beauty, luxury and prestige. Eldorado. You may choose it just because it's so beautiful.





Micro TV Breakthrough

Remember the \$400 Sinclair Micro TV? Here's the story on the greatest TV value ever.

That Sinclair TV shown above is small—the smallest TV in the world.

And when it was first introduced last year, it made history. So did its high price—\$395.

Our company never sold the unit for two reasons: 1) It was being promoted as a pocket TV and we felt it would not fit in most pockets and 2) We felt \$395 was too high a price for the unit regardless of its quality, size and features.

But we were wrong. Thousands of them were sold and it was selected as one of the most exciting new products of the year.

WE BOUGHT ONE

A few months ago we purchased a Sinclair TV and discovered another feature we didn't like. The unit included a 220-volt converter for European operation. This meant that every American who bought the set had to pay extra for the converter even though very few Americans would be taking their TV to Europe.

So we came up with an idea. We went to England and purchased thousands of sets directly from the factory without the converter. We were also able to save money by eliminating the normal mark ups by importers, wholesalers and distributors.

We can now offer you the unit for only \$249.95 and if you want the 220-volt converter, your cost is only \$19.95 extra.

LESS THAN WHOLESALE

JS&A would be offering the exact same Sinclair TV at a price less than Sinclair's actual wholesale price in the United States and we would still make enough profit to pay for the cost of this advertisement.

There is one feature we liked very much about the set. Its rechargeable batteries are built into the unit. Larger portable TV's offer \$60 optional rechargeable battery packs that must be purchased separately. Ours is built in and included in the price.

The Sinclair TV comes complete with an American AC adapter and charger, ear phones, carrying case, rechargeable batteries and a built-in antenna for both VHF and UHF. It

also comes with a cigarette lighter power converter, so you can watch all your favorite TV channels from your boat, plane, motor home or car without even using your batteries.

PHOTOGRAPHIC QUALITY

We were well aware of Sinclair's advanced electronics and quality features. But what we found particularly exciting was its picture tube. Even though the 2" (measured diagonally) tube is small, the TV's resolution resembles that of a clear sharp photograph. You can even read small telephone numbers when they're flashed on the screen.



The Sinclair unit is offered in this advertisement with the same accessories available in the \$395 system with the exception of the 220-volt power converter.

The Sinclair is also convenient. You can take it on trips and entertain your children while you fly or drive. You can keep it on your desk at work and monitor the latest news or stock market reports. And you can view the soap operas as you work around the house. We even took ours to the ball game to watch those instant replays.

BIG POCKETS

But don't expect to carry it in your pocket—it won't fit unless you have big pockets. The unit measures 1 1/8" x 4" x 6 1/4" and weighs just 28 ounces which includes the built-in batteries.

The TV is serviced in the United States by Sinclair's service-by-mail facility. If service is ever required during its one-year limited warranty, just slip it in its handy mailer and send it to them for repair. Your solid-state unit should operate for years without a problem, but if it ever needs repair, it's good to know that service is an important part of our program.

For \$249.95, the Sinclair Micro TV is worth your test. Order one from JS&A. Take it with you on a trip, bring it to your office, or carry it with you around the house. See how clear and sharp the picture is and how closely it resembles a black and white photograph. Then decide if you want to keep it. If not, no problem. Simply return your TV within 30 days for a prompt and courteous refund. We just want you to prove to yourself, the miracle of space-age electronics before you decide.

AMERICA'S LARGEST

Sinclair Radionics is one of England's largest electronics manufacturers and JS&A is America's largest single source of space-age products—further assurance that your modest investment is well protected even though the unit is offered at such a bargain price.

To order your Sinclair Micro TV, simply send your check for \$249.95 plus \$3.00 postage and handling (Illinois residents, please add 5% sales tax) to the address shown below or credit card buyers may call our toll-free number below. But please act quickly.

The Sinclair TV is an outstanding product that was priced too high. If you felt like we did and you waited, your timing is perfect. Order a Sinclair Micro TV at no obligation, today.

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**BELL HELPS TONY'S DELIVER
OVER FIFTY MILLION PIZZAS.**

PROBLEM:

When demand for their frozen products grew hotter than a pizza oven, Tony's Pizza Service saw a possible problem: keeping up their quality and customer service in the face of phenomenal growth.

Orders skyrocketed to over 50 million pizzas a year.



High-speed delivery, but low-speed orders.

The company already had 130 warehouses throughout 48 states, and they began to add 70 more while expanding their fleet of long distance refrigerated trailers.

But for the most part, warehouses continued to fill out order reports and inventory status forms manually and mail them to headquarters. Manual entry invited errors. Mail delays affected inventory levels and cash flow.

Management agreed to a system study by communications experts in package goods distribution—a team headed by their local Bell System Account Executive.



**Mailing alone
cost \$500,000.**

SOLUTION:

The Bell System team recommended a step-by-step integration of voice and data communications coast to coast. In short, a total system.

As a first step, 25 WATS lines were added in stages for phone orders and inventory status. Savings over mail: \$300,000.

Step #2 is still going on. It involves conversion to data terminal entry of orders and inventory status reports via low cost VuSet* terminals—one in each of Tony's warehouses.

Already the new system has cut down lag time and virtually eliminated errors. Cash flow has improved through closer control of production, inventory and shipping. As for Tony's quality and customer service, they've never been better.



**"Ordering
150,000 pepperoni
pizzas to go."**



Whatever your product or service, if you haven't talked systems with your problem-solving Bell Account Executive lately, you're missing something.

The system is the solution.



Bell System

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Nation's Business

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Nation's Business is the business advocate magazine leading the effort to strengthen the private enterprise system to advance human progress.

7 The Nation's Business Washington Letter

JAMES J. KILPATRICK

17 Of Baloney, Blubber, and Sirloin Steak

NATION'S BUSINESS OUTLOOK

20 Survey Shows 45 Percent More Investment

28 China: Open for Business?

35 Yesterday's Heresy Is Today's Gospel

37 What Labor Wants From the 96th Congress

44 Country Music Makes the Bottom Line Boom

50 Free Advice Pays Off for Small Businesses

LESSONS OF LEADERSHIP

56 How One Young Man and a Little Company Grew Up

61 Champions of Small Business Cross Swords

INDUSTRY SPECIAL REPORT

70 Office Equipment: Electronics Empties the Typing Pool

79 The Right Way to Control Inflation

PEOPLE IN BUSINESS

83 The Swiss Family Dorman

WORLD ECONOMIC OUTLOOK

86 Trade and Growth: All Ahead Slow

88 Technology Requires Managers With Quick Reflexes

BUSINESS LIFE-STYLE

92 Gourmet Cooking: The Joy of Sensuous Eating

EDITORIAL

96 A Sensible Plan From Business to Fight Inflation

SPECIAL ADVERTISING SECTION

MEXICO'S ECONOMIC RECOVERY

Departments

| | | |
|----------------------------|------------------------|------------------------|
| 7 Washington Letter | 17 James J. Kilpatrick | 83 People in Business |
| 12 Letters to the Editor | 29 Outlook | 92 Business Life-Style |
| 15 Sound Off to the Editor | 68 Sound Off Response | 96 Editorial |

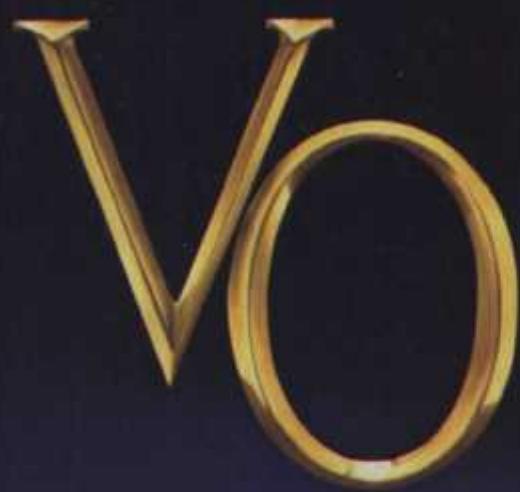
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The signposts of success are clearly lettered.



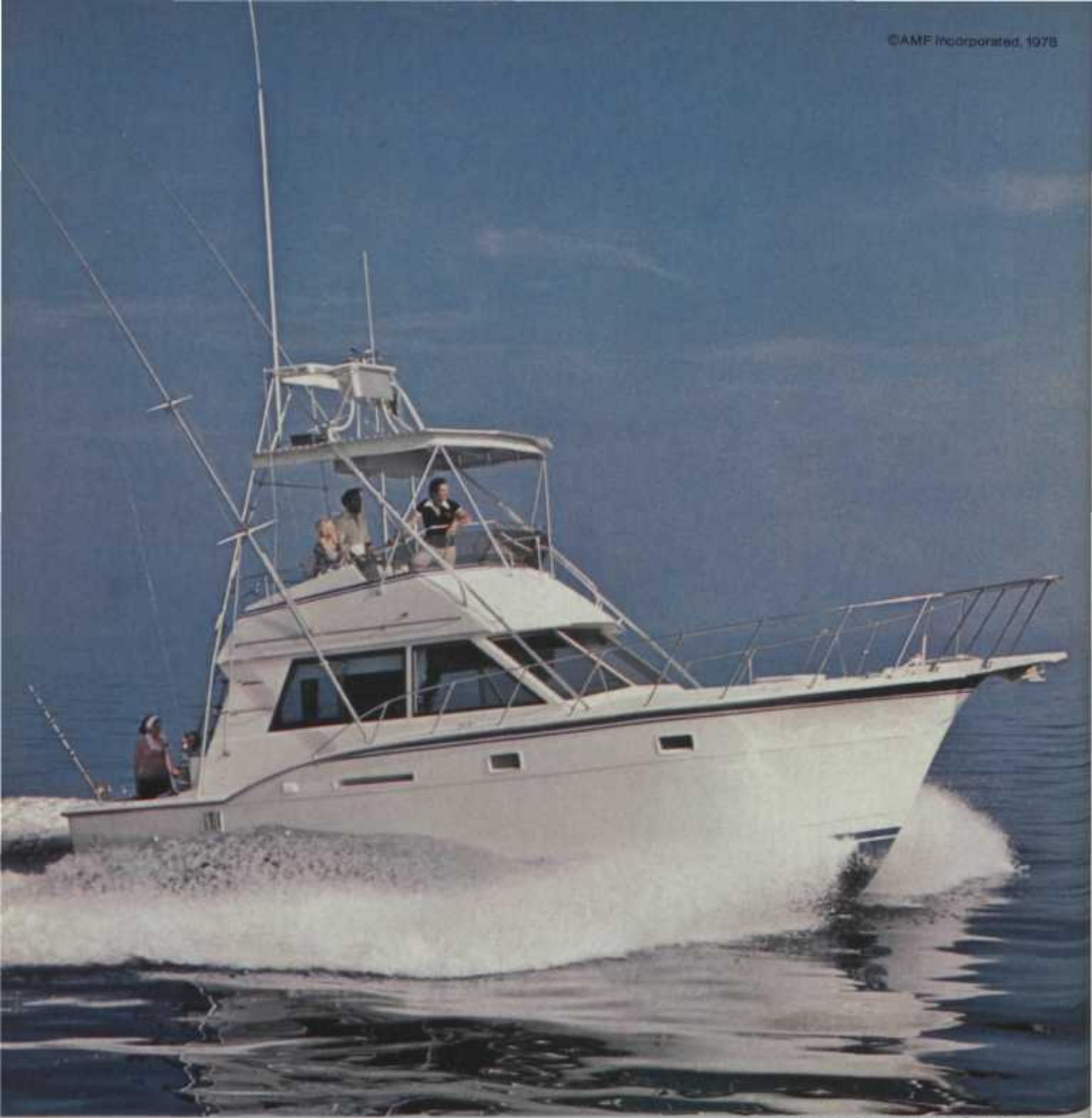
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Today, with more and more affluent boat owners turning to larger yachts as an investment affording a

hedge against inflation, quality and sea-craftsmanship are more important than ever. That is why, at Hatteras, we build our yachts to hold up in the market as well as they hold up in the sea.

For more information on the full line of Hatteras yachts from 37 to 70 feet, send \$2.00 to Hatteras Yachts, 3279 Kivett Drive, High Point, North Carolina 27261.

AMF
Hatteras

WASHINGTON LETTER

► BUSINESS ANALYSTS SPOT major flaws in President Carter's new budget: economic assumptions are far too optimistic.

Example: President's budget anticipates 6.7 percent inflation in fiscal 1980, which begins in October.

But that optimistic prediction assumes the President's anti-inflation program will be effective.

Lot of people in business think it won't work. Reason: Program fails to take in big cause of inflation--namely, excessive government spending.

Item: Government estimates of inflation rate during past year were very wrong--far too optimistic.

► BATTLE OF THE BUDGET for fiscal 1980 is under way--and it promises to be a hot one. Administration's big guns are hard at work to save \$532 billion budget.

► BUSINESS' TURN TO TESTIFY will come shortly.

Business will tell Congress Mr. Carter's so-called "lean and austere" budget does not match with administration's rhetoric.

Business praised the thrust of the President's State of the Union message calling for lower inflation and less government interference in business.

But the real meat of his talk--the new budget--contains such items as a near 12 percent increase in regulatory agency spending. Dr. Richard L. Lesher, National Chamber president, spotlights this as "a major source of inflation."

He says: "This is hardly a sign that government regulation will be reduced."

► BUSINESS ALSO WILL HIGHLIGHT tax collections in testimony to Congress. Federal revenues are expected to go up

next fiscal year by \$47 billion. To the average American household, this means a loss in spending power of \$621.

► ANYTHING GOOD ABOUT INFLATION?

There's one thing, says Shearon Harris, National Chamber board chairman: "It is within the grasp of the American people to correct it."

He has presented detailed proposals to Congress and the White House on how the Chamber feels inflation can be beaten.

For those details, you'll want to turn to page 79.

► AMERICAN CONSUMERS strongly support curbs on federal government taxing and spending.

That is the result of new poll conducted for the National Chamber by the Gallup Organization.

Survey reveals 77 percent of respondents to scientific nationwide sampling favor cuts in government spending, services, and taxes--if all are reduced by the same amount.

The poll, drawn from a sample of 1,563 individuals, is first of planned series of such quarterly surveys.

► UNION ELECTIONS held under government supervision in fiscal 1978 continued to go against organized labor.

Preliminary estimates of the National Labor Relations Board show that unions lost 54 percent of the 8,240 NLRB-supervised elections.

This was identical to the election loss the previous fiscal year.

The losing trend began in 1974 when there was a 50-50 split on elections. During the next two years, organized labor lost 52 percent of elections.

Of the 8,240 fiscal 1978 elections,

807 were for decertification. The NLRB reports that in 73.6 percent of those, the representing unions were thrown out.

► MORE PAPERWORK REQUIREMENTS, and then some. That's what is emerging from the Council on Wage and Price Stability, requests for one report after another.

It's outlined in the council's interim final rules.

A hit list naming those who do not comply is coming. It will be called the "list of noncomplying companies." Watch for it to start toward the end of next month.

We'll tell you more as it develops.

► FEDERAL CONTRACTORS holding individual contracts of \$5 million or more must comply with the administration's wage-price standards or risk termination of their contracts.

Bidders must certify they will comply before being considered.

Final regulations on this, issued through the Office of Federal Procurement Policy, go into effect this month.

An OFPP official says about 500 companies will be affected. In dollar amount, it's about \$40 billion.

He says the \$5 million threshold is expected to be lowered later this year.

► THE PEOPLE'S REPUBLIC OF CHINA is facing a half billion dollar trade deficit this year in its move toward industrialization.

By 1980, that deficit is expected to reach \$1 billion to \$1.5 billion.

National Chamber economists say China's trade balance was on the plus side in both 1976 and 1977, about \$1 billion to the good each year.

In 1978, the surplus was eliminated.

For further information on China's move toward modern technology, you'll want to turn to page 28.

► WOMEN IN THE MILITARY are causing a slight morale problem, our sources inside the system tell us.

The crux of the problem seems to center on the caliber of females entering the service--they're among the best

and the brightest. The armed services have been scrambling to find male recruits since becoming an all-volunteer force in 1973. But that hasn't been the case with women, whose numbers have grown from 45,000 in 1972 to about 150,000 today.

It has become a buyer's market, and with that market come outstanding women recruits who are competing with men for promotions. The women are moving ahead and taking command in some jobs.

"Some of the guys apparently haven't gotten used to the idea that the women are competing," says a Defense Department spokesman. He adds, however, that the problem will be overcome--once the men realize that that's the way it is.

► A POTENTIAL SHORTAGE of engineers in the aerospace industry is prompting concern at the Defense Department.

"The threat we see is a lack of adequate, highly skilled labor, which will affect performance and cost of contracts," a Defense official told us.

He labeled the problem as "an area of concern."

He says that when the Vietnam war wound down, "a lot of engineers were dumped on the market. It turned many of them off." This attitude spread, he says, causing the possible shortage.

A check with the Labor Department, however, indicates a good supply of all types of engineers to meet demand through 1985. But, a spokesman says, there may be temporary shortfall in individual industries. He says the number of engineers graduating is down a little, but he expects that to pick up.

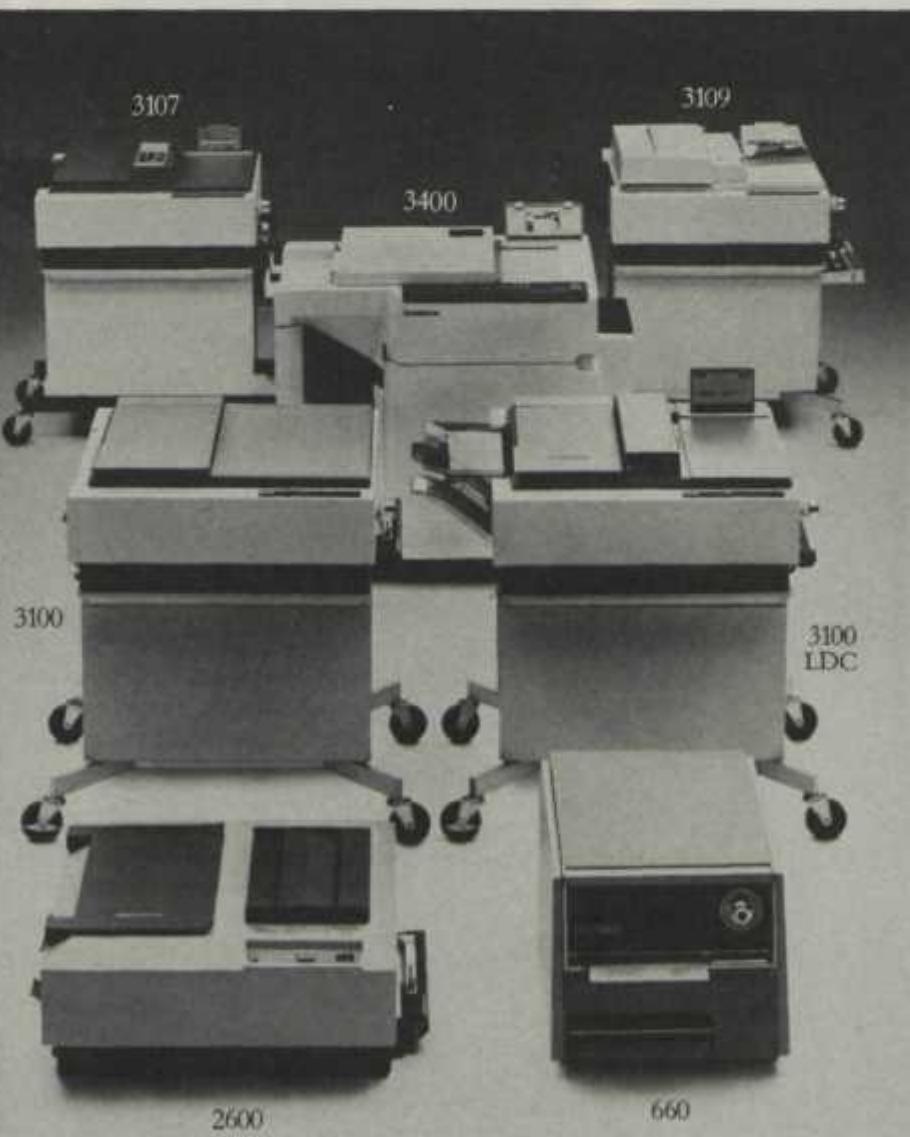
► LACK OF MANAGEMENT CONTROL, long criticized by federal chiefs, may become a thing of the past.

President Carter's reform of the civil service system went into effect last month with the aim of improving management control and efficiency.

The new performance-based system creates a management cadre and eliminates automatic pay hikes for middle and senior managers. They'll have to excel to get those raises from now on.

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Democrats See the Conservative Light

James J. Kilpatrick notes that the Americans for Democratic Action handed out fewer 80-plus grades in 1977 than in 1975, and that the Chamber of Commerce of the United States found more members of Congress voting conservative in 1977 than in 1975. ("The Good Old Tide of Conservatism," Dec.)

A resolution beaten at the Democratic Party's midterm convention in Memphis, Tenn., was equally revealing.

The delegates, by a vote of 822 to 521, defeated a resolution to hold social needs spending to current levels. The resolution didn't ask for an increase, only a guarantee that there wouldn't be any cuts.

Incredible, but a majority of Democrats voted against such a resolution.

That's an amazing recognition of conservatism and could be a major

step in rescuing it from the apocryphal status it has endured for 40 years.

JESS GARBER
Editor
The Record Herald
Waynesboro, Pa.

changed that. My thinking has always been correct. He simply put it into words.

HARRY J. GEIER
General Manager
Midwest Wholesale Co., Inc.
Topeka, Kans.

The right words

James J. Kilpatrick's essay ("The Good Old Tide of Conservatism," Dec.) should be emblazoned for use by students of politics for years to come.

For many years I have been trying to explain my own political philosophy. Alliance with the Democrats, Republicans, Independents, or even the unaffiliated didn't seem to fortify my thinking.

And any previous accounts of conservatism and liberalism I read did nothing to isolate and strengthen my beliefs. But Mr. Kilpatrick's article has

Misplaced . . .

I liked James J. Kilpatrick's essay ("The Good Old Tide of Conservatism," Dec.), but George McGovern is not from North Dakota, thank God.

I've always described myself as a conservative, but Mr. Kilpatrick helped me clarify the description of myself. Thanks. RICHARD C. THOMPSON
ASP Construction Co.
Fargo, N.D.

EDITOR'S NOTE: *NATION'S BUSINESS* made the error, not Mr. Kilpatrick, who is a whiz at keeping senators in their proper place.

Longer working days

My reaction to James J. Kilpatrick's article ("Court Reform: Start at the Bottom," Nov.) was mixed. I agree that one reform would be to replace the incompetents on the bench. I also feel that judges should be robed.

But no reform starts at the bottom. Any businessman knows that reform starts at the top and works down, the lower men following the leaders.

And a double or triple salary increase is pure foolishness with inflation running rampant.

If our judges really wanted to serve the public, they would follow the example of the private business person and work longer hours until they are caught up.

ROBERT P. ELKINS
President
R. & R. Painting
Medina, N.Y.

"Overschooled idiots"

James J. Kilpatrick's article ("Tuition Grants and Trojan Horses," Oct.) is the first sensible opposition I have read regarding the tuition tax credit.

As a lay student of the law over the past 40 years, I would consider the tuition tax credit the same as any other



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Executone

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THE TRUCK STOPS HERE

Millions of people in America's small cities and towns depend upon the regulated trucking industry for their very survival.

But the industry did not always run smoothly. The Supreme Court of the United States described the industry prior to its regulation by the Motor Carrier Act of 1935 as "unstable economically... unable to satisfy the most minimal standards of safety or financial responsibility."

Today the trucking industry is giving America the most efficient, stable, orderly and low-priced freight transportation system in the world. Our motor carriers are virtually a lifeline to every community in the country, especially the more than 64 percent of all U.S. communities that don't have rail service. This lifeline delivers the food, clothing, manufactured products, machinery and other goods vital to America's homes, businesses and industries.

Regulation in general has become a matter of current interest. Those who see airline passenger

traffic increasing as a result of deregulation might question whether deregulation of the trucking industry would be beneficial. However, this is marching straight into the past to make the same mistakes all over again.

Lack of regulation didn't work for shippers or the public in the 1930s, and it won't work today.



Air cargo deregulation, for example, has not brought lower rates. This concept was touted on the basis that shippers would get more service at lower cost, but air freight rates have already gone up as much as 10 percent—instead of going down.

Freight, unlike people, doesn't move because rates are lower. Freight volume is a stable "commodity," pushed higher or lower by the state of the nation's economy.

If motor carrier service were deregulated, shippers would not always know what they would be charged. Nor would they know whether their rates were higher or lower than those of other shippers. It would be the same story that it was in the past with the early non-regulated trucking industry.

The modern American motor carrier system efficiently supplies more than 200 million people with all the things they need at minimal cost. It has kept pace with an ever-growing and changing economy. Let's not jeopardize this system.



American Trucking Associations, Inc.

Today's Trucking Industry... It Works for America

tax loophole, an inducement to individual taxpayers, not a subsidy to a school, whether public or private.

In the words of a former college law professor, bureaucrats seem to be "overschooled and undereducated idiots."

ROY A. SHULL
Little Rock, Ark.

On the right track

I am enrolled in an introductory business class at Brookhaven College in Dallas. I read the article about Michael Landon ("He Runs Little House on the Prairie Like Any Other Business," Aug.), and then I wrote an essay on it. My teacher asked me to send you the paragraph that he liked best, which relates my feelings on the article. The paragraph reads:

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"Personally, I believe NATION'S BUSINESS is on the right track by printing this very human story about a very human actor who is in a booming business, which should plant the seed in our minds that we can be for real, be happy, be what we want to be, be decent, and make money at the same time."

I like your magazine very much. Keep up the good work.

DORA DUNCAN
Carrollton, Texas

A solid piece

I wanted to tell you how much we appreciated the fine job you did on the Vietnam veteran story. ("Whatever Happened to the Vietnam Veteran?" Dec.)

To my knowledge, it is the first solid piece on the subject to be written.

MARTHENA COWART
Special Assistant
to the Administrator
Veterans Administration
Washington, D. C.

Here's your chance

While reading through the October issue of NATION'S BUSINESS, I was

brought up short by Milton Layden's article titled, "Whipping Your Worst Enemy on the Job: Hostility."

Dr. Layden has obviously done his homework and done it well. He has taken a subject that is usually swept under the rug and presented it in such simple terms that any average layman can understand.

I suggest that you print the doctor's name, address, and telephone number for those in the business world who wish to contact him for his services.

JERRY ADLER
President
The Art Brigade
North Hollywood, Calif.

EDITOR'S NOTE: Dr. Milton Layden lives at 100 West Cold Spring Lane, Baltimore, Md. 21210. Telephone 301-433-6695.

Somewhere over El Paso

The article on the automobile industry ("Regulatory Hazards on the road Ahead," Oct.), which I read while flying over El Paso, left out a very important factor—the buying public. Not that the consumer will put his or her foot down and demand that government play a lesser role. The average person can't be bothered.

So the government mandates seat-belt interlock devices? I get my corner mechanic to defeat them or fasten the belt behind the seat. So there's a 55 mph speed limit? I get a CB radio or a radar detector if I really want to do a lot of fast traveling. The government says the average fleet size and gas usage rates must decrease? I got a new van with full conversion, cruise control, wet bar, and bed.

My prediction for the auto industry in the next few years is that most people will have two cars. One will be a small commuter vehicle—perhaps electric—for use during the work day.

The second will be a fantasy vehicle of some sort—a dune buggy, a Maserati, or a restored Packard—that will express an individual's personality.

Another factor a few years down the road will have an even more profound effect on the automobile industry. Computers will enable me to live wherever I choose and work at home. My salary will be deposited electronically. My bills will be paid the same way. I'll be able to dial up store information on my computer, order what I want and bill it to my account, without leaving the house. Now that's going to be interesting—and fun.

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Are Federal Workers Paid Too Much?

ALAN CAMPBELL, the man who spearheaded President Carter's reform of the U. S. Civil Service Commission and who now heads the Office of Personnel Management, says: "More federal employees are overpaid than are underpaid."

Despite denials by federal officials, most of the government's 2,130,300 civilian employees draw considerably higher average pay than workers in comparable jobs in private industry or state and local governments.

One recent study showed that federal pay averages 42 percent higher than in private industry. That adds up to an annual \$14 billion.

Average federal pay is \$17,404, compared with \$12,230 for state and local government workers and \$12,244 for those in private industry.

Moreover, federal civil servants enjoy more lucrative fringe benefits, and

these fringes are not considered in determining how federal pay compares with private employment.

The pay comparability system was set up several years ago when federal wages were well below those of many comparable jobs in private industry.

Government officials who set comparability pay levels say that they precisely match wages in private business. Critics say that the government looks only at figures in the top two percent of companies, where salaries are generally higher.

Rank-and-file federal workers as well as the unions which represent a growing number of government employees maintain their pay is not out of line with private industry. They argue that their wages rightfully should be compared to those in big corporations since it is difficult to find a full range of comparable jobs in most

small and medium-sized companies.

Some of the government's lowest-paid workers in the Defense Department can claim that they are not enjoying the fruits of comparability. Many of these employees, who work in stores, post exchanges, commissaries, and similar service establishments, barely get the minimum wage. Their pay is determined by local wage surveys of similar jobs in private industry.

Last October and November, they were due to receive pay increases, but the Defense Department imposed a five percent ceiling, a figure somewhat below what they would have received.

More and more private employers are complaining that they are losing experienced workers to government because they cannot compete with the higher pay and better fringe benefits.

What do you think: Are federal government workers paid too much? □

PLEASE CLIP THIS FORM FOR YOUR REPLY

Wilbur Martin, Editor
Nation's Business
1615 H Street N. W.
Washington, D. C. 20062

Are federal workers paid too much?

Yes No

Comments:

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Company _____

Street address _____

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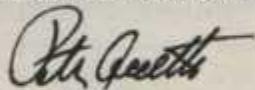
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Of Baloney, Blubber, and Sirloin Steak

CONGRESS is now studying President Carter's proposed budget for fiscal 1980.

The President has been out on the hustings, telling everyone who will listen that his budget is "an austere budget, a very, very tight budget." Maybe yes, maybe no. In the face of the President's manifest good intentions and his promise to reduce the deficit to \$30 billion or so, I hate to sound the cynical word, but if Jimmy Carter truly has achieved an austere budget—if he has cut the blubber out—his feat will rank with those of Hercules a very long time ago.

The late Harry F. Byrd, Sr., God rest him, began educating me in the mysteries of the federal budget back in 1943. He continued these patient labors until his death in 1965. The senator had a first-rate horror hunter on his staff, a former Associated Press reporter named Heywood Bell. Together they used to prowl through the great, thick budget documents, searching for the buried acorns of new functions from which some mighty oaks might one day grow. Mr. Bell ran the senator's one-man committee on nonessential federal expenditures. He never passed an idle hour.

WHAT MY TUTORS TAUGHT ME is that the budget is part bone, part muscle, and part pure fat. The bones include the one item that is actually untouchable, the interest on the national debt, along with a dozen other items that are politically untouchable—social security benefits, salary scales, pension benefits, and the like. These items, annually classified as uncontrollable, make up about 75 percent of the budget.

Sen. Byrd never accepted the notion that three dollars out of every four were beyond the reach of Congress. He argued incessantly that many programs regarded as muscle were in fact larded with fat. Medicare and Medicaid in time would prove his point. But what infuriated Sen. Byrd were the constantly proliferating outlays that he regarded as plain blubber. He looked at every year's budget as an Eskimo looks at a beached whale. And year after year he kept whacking away.

In this exhausting exercise, Sen. Byrd antedated Sen. William Proxmire. The Wisconsin Democrat has made a career of exposing waste in federal spending. Sen. Proxmire's Golden Fleece of the Month awards have brought pain to bureaucrats, joy to editorial writers, and green envy to senatorial colleagues who regard him as a publicity-grabbing grandstander. The senator deals with relatively small amounts of waste for two reasons: First, people who could not comprehend the waste of \$200 million can understand the waste of

\$200,000; second, if the waste of the \$200,000 can be established, the waste of the \$200 million can plainly be assumed.

Not long after Mr. Carter made his pledge to hold down the deficit without starving useful programs, Sen. Proxmire gave his Golden Fleece award for December to the Office of Education. The occasion provided a splendid example of Sen. Proxmire at work, and it spoke volumes of the problem that faces the President.

SOMEWHERE within the budget of the Office of Education lies a large chunk of money made available through the Special Projects Act. From this appropriation, the office has funded four contracts totaling \$823,651 to develop critical televi-



sion viewing skills among schoolchildren and college students.

Sen. Proxmire seized upon one of the contracts, which was awarded to the School of Public Communication at Boston University. Under this contract, the school will receive \$219,592 to develop a curriculum package for college students. This is the grantee's own description of the materials: They will "help viewers to understand the differences and the values of various types of television programming, i.e., commercials, drama, soap opera, situation comedies, documentaries, public affairs, news, [and] sport programs." The idea is that college students will learn to "become aware of the differences between an issue presented in a television drama (fiction) and the same issue treated in a television documentary (fact)."

In his press release announcing the award, Sen. Proxmire quoted from the grantee's description of certain field tests: "A series of univariate and mul-

tivariate analyses will be performed in order to delineate the characteristics of the sample in terms of pretest levels of critical viewing skills, as well as sociodemographic and other variables, and the effect of the test curriculum. Among these analyses will be a multiple analysis of variance, with experimental vs. control as the independent variable, and a set of different (post-minus pretest) scores assessing selected critical viewing skills as the dependent variable. . . ." And so on.

The project plainly has its hilarious aspects. One imagines a classroom packed with lusty male undergraduates, all of them seeking college credit for TV Viewing 101.

Today the professor will subject them to (a) Jane Pauley of NBC, (b) Lesley Stahl of CBS, (c) Charlie's Angels from ABC, and (d) the Dallas Cowboys' Cowgirls. The object is to teach these numskulls how to distinguish among news, sitcoms, and sports, thus enhancing their critical skills, but it is hard to get the scholars' attention when they are going drool, smack, wow, and right on.

LE T US TEAR OURSELVES from the happy scene and return to the matter at hand. The grant represents an absolute waste of public funds. The data assembled from this vapid study will be as utterly useless to the American taxpayers as a calculation of the number of straw hats observed at Fort Lauderdale on an April afternoon. Indeed, a count of straw hats might have some conceivable value to the manufacturer thereof.

But if young men and women have not learned to distinguish between drama (fiction) and documentary (fact) by the time they get to college, no curriculum package is likely to help them—and tax funds ought not to be spent for any such purpose anyhow.

I digress long enough to preserve a point. In my own antiquarian view, the Constitution provides no authority whatever for the kind of giddy individual grants and awards that provoke senatorial salivation. Not even the general welfare clause stretched to its outer limits could be invoked to justify a study of courtesy on the tennis court, a poll of motorists' opinions of tractor-trailer trucks, or the filming of rolls of crepe paper dropped from a low-flying airplane. Nothing in the enumerated powers covers a count of fat people at a smorgasbord. All of these lunacies have been funded with tax dollars, and all have won the Proxmire awards.

PERMIT ME TO SUGGEST a more constructive bit of research: Let some qualified doctor of political science, in the methodical fashion of a good pathologist at work, undertake to trace the process by which these maddening abuses come about. Where did this Special Projects Act originate? Was it contrived by a gaggle of eager grantsmen in schools of communication? Or was it the brainchild of canny bureaucrats who saw vistas of broader empires? How was pressure applied to Congress and the Office of Management and Budget? How was the final appropriation sold to committees of House and Senate? And, continuing the dissection, how was this particular contract for \$219,592 obtained?

Who reviewed the proposal? What did Joe Califano know, and when?

If we clearly understood the process that takes us from somebody's brainchild to the Incredible Hulk, we might identify these little monsters before they grow up. An appropriation of public funds intended to teach college students how to view Howard Cosell critically might then be strangled in the legislative cradle.

QUITE SERIOUSLY, this is Mr. Carter's problem in seeking a bare-bones budget. He has to cut away the blubber. The President will find great quantities of fat in the Department of Defense. The Medicare and Medicaid programs are down for \$45 billion, more or less; at least ten percent of that sum is lost in fraud, padded payments, and benefits to ineligible people. The Head Start program is commonly regarded as sacrosanct; it costs the taxpayers \$700 million, but there is grave doubt that a cost-benefit analysis would prove the program's worth.

The budget drips with fat. Last year a Gallup poll found that most American people believe half of their federal taxes is wasted. The perception is squarely on target. A tremendous bureaucracy has been created in the fashion of the breeder reactor; in the sheer shuffling of papers, more fuel is produced than is consumed. In the preparation of forms, the approval of forms, the distribution of forms, the tabulation of forms, the return of forms not properly filled out, and the ultimate filing of forms, a great governmental industry has grown up. It employs hundreds of thousands of people.

SIMILARLY, in the profession of grantsmanship, a marvelous condition of interdependency flourishes. Piggyback, grantees and grantors march as one to the federal trough. Their symbiosis develops so perfectly that in time it becomes impossible to say who thought up the idea of applying the techniques of regression analysis to college students as they revel in *Mork and Mindy*.

If Sen. Proxmire ridicules these expenditures of public funds, it is because he regards them as ridiculous. And so do I. But we ought not always to question the motivation or the sincerity of the grantees who ask or the grantors who bestow. The academic groves are populated by scholars who believe in the importance of their federally funded research. The infinite bureaus of the Department of Health, Education, and Welfare are not directed solely by cynical manipulators, bent upon frittering away money to expand their own power.

We deal here with different perceptions, with different states of mind, with different views of what is necessary and proper. What strikes the senator as baloney strikes the spenders as sirloin steak. Mr. Carter's task is to impose the hard question that produces the clear distinction: Is this proposed expenditure so indispensably necessary to the United States that the national interest will gravely suffer if the money is not spent? By that test, college students would be left to watch TV on their own, and a balanced budget might one day be achieved. □

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OUTLOOK

ECONOMY

45 Percent More Investment Expected, Survey Shows

Business leaders responding to a recent survey indicate fairly optimistic investment plans for the next year. Forty-five percent expect their companies to invest more money than they did last year in new structures or equipment. Thirty-three percent expect about the same amount, while 19 percent expect their firms to invest less money.

"Investment during the fourth quarter of 1978 and January of 1979 confirms this somewhat positive attitude," says Dr. Jack Carlson, chief economist of the Chamber of Commerce of the United States. "However, business optimism may decline as higher interest rates and slower growth of output occur later in 1979," according to the survey conducted by the National Chamber and the Gallup Organization, Inc.

The four-year investment plan outlook is more buoyant.

Fifty-four percent of business executives expect their firms to invest more in new structures or equipment than they did in the past 12 months, after adjusting for inflation. Twenty-eight percent expect about the same amount of investment, and only 15 percent expect less.

However, only 18 percent of those who have plants say that now is a good time to undertake a major expansion of buildings or plant capacity; three fifths say that now is neither especially good nor bad, and 22 percent say that it is a bad time.

Thirty-two percent think that now is a good time to replace tools and equipment, but nearly three fifths of those with such equipment think now is neither good nor bad, and nine percent say it is a bad time.

Only 12 percent of the business leaders with inventories think now is the time to increase them, while two thirds think now is the time to leave inventories as they are, and 22 percent think they should be reduced now.

PHOTO: JOHN NEUBAUER



Bosworth: Seeks better handle on the American economy.

Final Wage-Price Rules Include Smaller Companies

New rules on the wage-price guidelines seek formal compliance from companies with as little as \$250 million in sales, not just those with \$500 million or more.

Barry P. Bosworth, director of the Council on Wage and Price Stability, says the broader reporting rules will give the council a better handle on the economy. Two of the new rules, which were published in the *Federal Register* on Jan. 4 will:

- Limit the grounds for obtaining an exception to the guidelines to six categories: acute labor shortages, tandem contracts, trade-offs in work-rule changes, profit margin limits, unusual business conditions, or gross hardship.
- Restrict corporations from getting around the guidelines by rejuggling their internal structures.

Mr. Bosworth says council officials will be checking manufacturers' price increases, and names of violators will be made public.

Federal Reporting Burden Eased for Small Banks

The amount of information that small banks must provide federal regulators has been reduced by about 40 percent.

The action was taken by the three federal bank regulatory agencies, the

Comptroller of the Currency, the Federal Reserve Board, and the Federal Deposit Insurance Corporation.

The move, supported by bankers, is part of the trend toward treating small banks—with assets of less than \$100 million—differently in recognition of their unique problems.

CORPORATIONS

Board Sets Objectives for Financial Reports

The Federal Accounting Standards Board says that financial reporting and accounting should meet the needs of outside users of the information such as investors and creditors rather than the internal needs of businesses.

A recent board statement resolves the long-time debate between accountants and business people over the objectives of financial information.

Financial reporting should provide useful information to investors and creditors and focus on earnings, the statement says. Financial reports, says the board, should help outsiders assess the cash flow from dividends or interest as well as the proceeds from the sale, redemption, or maturity of securities or loans. The reports should describe the economic resources of a business and any circumstances that may change those resources.

Workers' Compensation Becomes a Major Worry

Workers' compensation is now a major concern of business people, rivaling product liability.

In 1977, workers' compensation cost \$186 per employee, according to a National Chamber survey. Costs are growing at better than 20 percent a year and will soon top \$20 billion.

Despite the cost spiral, some members of Congress favor legislation similar to the Longshoremen's and Harbor Workers' Compensation Act, the only federal workers' compensation program covering private sector workers.

This year, maximum benefits under

that act will be \$396 a week—a figure higher than every state benefit except Alaska's. The act's minimum weekly payment of \$90 is higher than the maximums in five states. For the shipbuilding industry, one of several maritime industries subject to the act, annual costs averaged \$117 per employee in 1970, \$710 in 1976, and are expected to reach \$1,122 by 1980. That's an increase of 851 percent in a decade.

Justice Drafting Ban on Mergers

The Justice Department is refining a legislative proposal aimed at banning large mergers. It would prohibit any merger between companies having \$100 million or more each in sales that would result in a corporation with more than \$2 billion in annual sales or assets.

The proposal would also prohibit the merger of a company with \$1 billion or more in sales with another company that has a 20 percent share of a concentrated market having a minimum of \$100 million in annual sales.

SMALL BUSINESS

Two-Tier Loan System Means Lower Interest

Major banks have adopted a two-tier interest rate system aimed at giving small business owners lower rates on loans.

The program, initiated by Mellon Bank, Pittsburgh, Pa., offers interest rates at between 1.25 to two points below the current prime. Traditionally, banks offer the lowest interest rates to their largest customers and increase rates from there.

At Mellon Bank, the first to adopt the program, a small business is one with up to \$1.5 million in assets.

Craig G. Ford, Mellon Bank's senior vice president for metropolitan affairs, says that if the prime should drop, the small business rate will decrease proportionately. The two-tier system will equalize with the prime reaching 9.5 percent, he says.

FTC Wants Franchisors to Furnish More Data

"Far too many people have invested their life savings in business ventures about which they had very little solid information," says Albert H. Kramer,

director of the Bureau of Consumer Protection at the Federal Trade Commission.

A new FTC rule requires that franchisors and franchise brokers furnish prospective franchisees with a disclosure statement at least ten days before they sign a contract or pay any money.

The statement will include information such as any litigation and bankruptcy history of the franchisor and key management personnel; financial data on the franchisor; costs, both initial and recurring, which must be paid by the franchisee; and all restrictions on the franchisee's operation.

The rule also prohibits unsubstantiated claims by franchisors about actual or potential sales, income, or profits. Violators face a penalty of up to \$10,000 per violation.

AGRICULTURE



Rural housing: 115,000 loan applicants will get \$2.8 billion.

FmHA Swamped With Housing Loan Requests

Higher interest rates and tighter commercial credit have driven up the demand for rural housing loans, according to the Agriculture Department.

"We are literally swamped with applications," says Gordon Cavanaugh, administrator of the Farmers Home Administration. "In any other year, we could fill one application for every three we receive, but this year the ratio is four to one."

Close to 115,000 loan applications will be approved this year.

The program allows low and moderate-income families to obtain an 8.75 percent interest loan, depending on family finances, the area in which the home is located, and the cost of the home or property.

In fiscal 1979, more than \$2.8 billion will be allocated to the states in increments of 35 percent for the first quarter, 25 percent in the second and third

quarters, and 15 percent for the fourth quarter.

Mr. Cavanaugh says that because most states filled quotas early in the first and second quarters, he has instructed all state FmHA loan offices to maintain a reserve fund for hardship cases during the rest of this fiscal year.

Foreign Money Can Help Farmers Finance Expansion

Despite warnings by U.S. officials that foreign investment in rural America may lead to inflated land prices, foreign dollars could benefit farmers in the long term.

"American farms are getting constantly larger," says E. Clinton Stokes, agricultural issues manager for the National Chamber. "They require more costly production equipment and, consequently, increasingly larger amounts of credit and investment capital. More farmers are seeking various forms of financing for their production and marketing operations.

"Foreign equity capital could benefit young farmers and farmers who want to expand through joint ventures or lease arrangements," he adds.

The American Farm Bureau Federation has taken no official position on foreign ownership of farm real estate, but would oppose such investment if it created a competitive disadvantage for farmers.

The Agriculture Department reports that farm real estate values increased about 12 percent in 1978. The increase, it says, is due to the 30 percent hike in annual net farm income.

BUSINESS TRENDS

FTC Seeks Changes in Private Rule-making

While the federal government is by far the nation's largest regulator and rule-maker, more than 400 private industry groups set product quality standards for all kinds of consumer goods.

Now the Federal Trade Commission wants to open up the rule-making procedures of such groups as Underwriters Laboratories, the American National Standards Institute, and The American Society of Mechanical Engineers. The agency says its proposal, which is at least a year away from implementation, would let people in small and medium-sized businesses participate in rule-making.

Rules and codes, such as building

and electrical standards developed by private groups, often wind up having the force of law when they are adopted by city and state governments.

The FTC reasons that by requiring appeals boards as part of the rule-making process, technical innovation and new products will be encouraged. An eventual by-product: lower prices and less inflation.

Firms' Hiring Optimism Indicates No Recession

A leading employment firm has concluded that there will be no recession in the first half of 1979.

Manpower, Inc.'s quarterly survey of hiring expectations shows first quarter hiring should be only slightly below that of previous years. "Much more hiring pessimism would be expected if a recession were imminent," the firm says.

Nationally, 24 percent of the employers surveyed anticipate increased hiring levels through March. This is down one percentage point from the first quarter of 1978. Also, 59 percent see no hiring change, 14 percent plan staff cuts, and three percent don't know.

Durable and nondurable goods manufacturers have a solid hiring outlook compared with the first quarters of 1978 and 1977, but other sectors are down. Construction hiring is at its lowest point since 1976—while 17 percent expect to increase hiring, 31 percent plan cuts. Also hard hit is wholesale and retail trade, where 16 percent plan increases and 28 percent plan to cut staff.

Geographically, the South continues to lead the nation in hiring, with only one of ten industry categories down from a year ago.

INTERNATIONAL BUSINESS

Comprehensive Guide to Investment Abroad

For companies interested in European markets, there is an impressive array of grants, subsidies, loans, and tax advantages designed to encourage proj-

ects benefiting the American business and the host country.

According to the National Chamber, there are more than 500 incentive programs in the Common Market countries alone. These countries spend about \$1.5 billion annually on such programs.

The problem is synthesizing all the information on such programs into usable information. To help American business people learn about European opportunities, the National Chamber publishes a 450-page guide called *Investment Incentive Programs in Western Europe*. The guide costs \$95 and is available from the Chamber's international division in Washington, D.C.



Tourism: Experts forecast a record 21 million foreign visitors during 1979.

Tourism Deficit Will Drop in 1979, Says Center

The U.S. Travel Data Center estimates that America's 1979 tourism deficit will be the lowest since 1970.

The deficit this year is expected to be \$2.3 billion, compared with \$2.5 billion in 1978 and \$3.1 billion in 1977.

International arrivals in 1979 will total 21 million, up six percent from 1978. Beverly Shipka of the U.S. Travel Service estimates that the number of travelers from Canada will be down slightly, but that visitors from Mexico will increase by 15 percent and from overseas countries by 17 percent.

All categories of visitors are expected to spend more here, an estimated \$10.14 billion this year, up from \$8.55

billion in 1978 and \$7.2 billion in 1977.

However, both the number of Americans going abroad and the amount of money they spend are going up slightly.

Ms. Shipka estimates that 23.7 million Americans will travel abroad this year, up three percent from 23 million in 1978. Creating that deficit balance of trade will be the money Americans will spend overseas—an estimated \$12.4 billion in 1979, up from \$11 billion in 1978.

PERSONAL BUSINESS

Parlez-Vous Computer Talk?

While it costs more than a dictionary, a new hand-held computer takes the struggle out of communicating in a foreign country.

Lexicon Corp., a Miami-based electronics firm, markets the computer with programmed plug-in modules that translate English into Spanish, French, Italian, German, and Portuguese and vice versa. The company plans to add Japanese, Swedish, Polish, Russian, Greek, Arabic, Hebrew, and Chinese in 1979.

All the traveler does is type in a question in English, and the computer prints it in the chosen language. Then the foreigner types in his answer, and the computer translates it into English.

Tyki Kyriakides, the founder of Lexicon, says his company will hasten its production of the Chinese module since normal relations with the People's Republic of China will probably create a demand for it. All Oriental languages, he says, will be romanized in the computer.

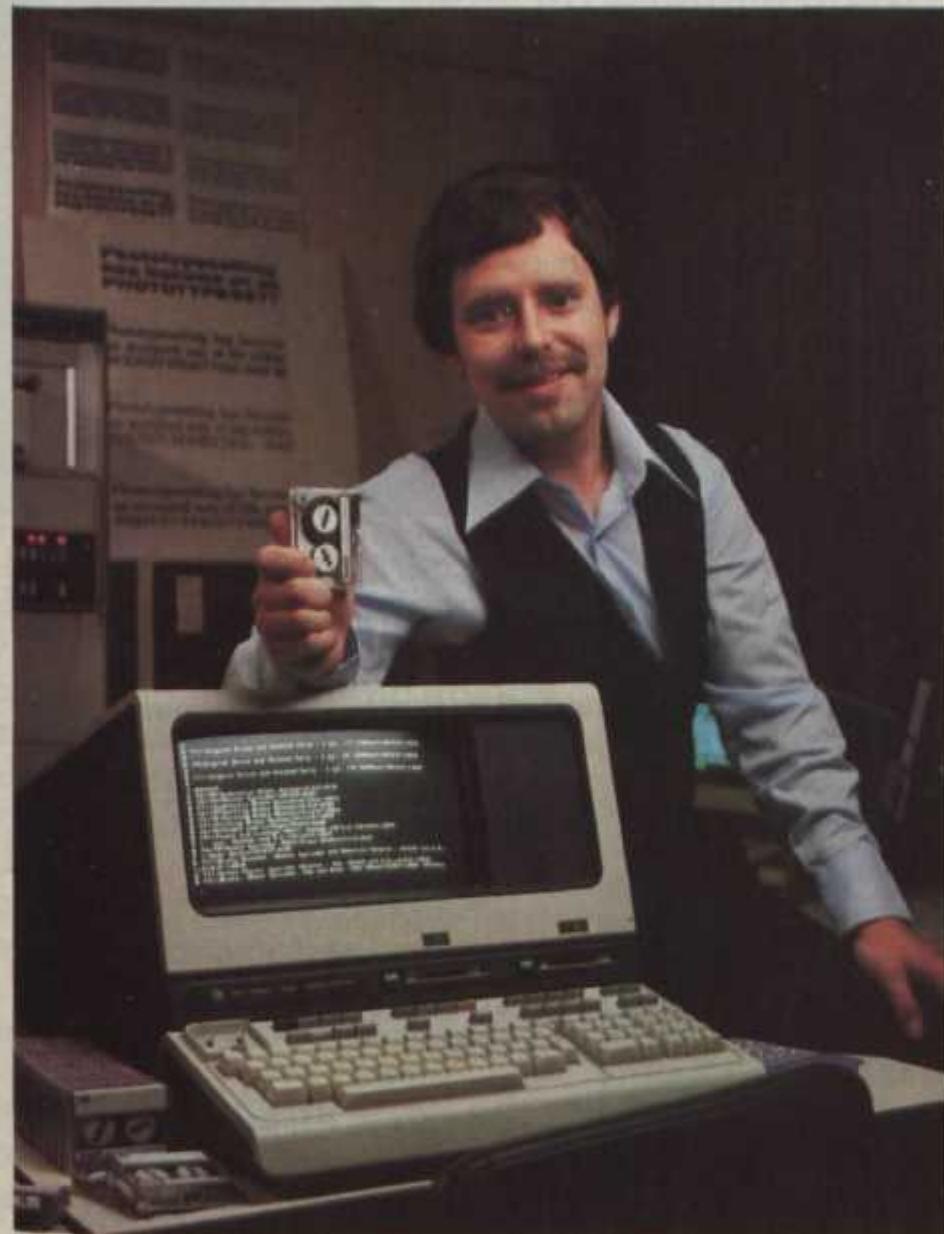
"We already have a license for the 1980 Olympic games in Moscow; we will have modules translating Russian



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Nation's Business OUTLOOK

into the languages of all the major participating countries," says Mr. Kyriakides.

18 Percent Increase in Hiring of Graduates

Good news for college seniors. According to 707 firms surveyed by the College Placement Council, Inc., in Bethlehem, Pa., the private sector anticipates an 18 percent increase in the number of 1979 graduates hired. Since the early 1970s, prospects for new grads have steadily improved.

On the other hand, public spending cuts and federal civil service reform will result in a 12 to 15 percent drop in new hiring by the government.

Following the pattern of recent years, graduates in technical fields such as engineering and computer science continue to be in the greatest demand.

TRANSPORTATION

Car Safety Standards Aimed at Trucks and Vans

Light trucks and vans, whose sales are booming in the United States, may be required to have the same safety features as passenger cars by 1980.

The National Highway Traffic Safety Administration says the total registration of light trucks, vans, and multipurpose vehicles is now 26 million and will double by 1990.

From 1975 to 1977, fatalities in these vehicles jumped 25 percent, compared to an increase of only 3.9 per-

cent for passenger cars. The fatality rate for light trucks in 1975 and 1976 was about double that for passenger cars of similar weight.

The administration wants three safety standards applied to trucks and vans with a gross vehicle weight of 10,000 pounds or less. The three standards, now applying only to passenger cars, involve improved interior padding, more protection for the driver from the steering control system in an accident, and a limit to how much the steering unit can move backwards—five inches or less in a 30 mph crash—in order to lessen impact with the driver.

The American Automobile Association, which favors extending the safety standards, says the cost per vehicle would be \$10 to \$20.

DOT Secretary Promotes New Auto Engine Design

The federal government is trying to do something about changing the internal combustion engine, which powers about 150 million vehicles in the United States.

Transportation Secretary Brock Adams has challenged the automakers to join in a search for the engine of the future. He is planning a meeting of the best brains in the industry, probably in the spring.

Mr. Adams says that "the curtain is quickly dropping on the age of the internal combustion engine as it is—and we have no replacement."

ENERGY

Options on Energy Strategy Still Open

Taking the scare out of scarcity will be one goal as Congress and the administration again grapple with various energy proposals in the months ahead.

Price controls on crude oil will expire on May 31, but President Carter can extend them through September 1981. The administration wants to raise oil prices in the U.S. to the current free market level.

"The timing will be critical because of the inflationary impact of raising domestic oil prices," says an Energy Department spokesman. So far, the administration has worked out no firm strategy. Among the options are a crude oil tax, which Congress ruled out last year before passing the first phase of the National Energy Act, partial or complete decontrol of prices, and import fees.

A sure bet this year is legislation aimed at reducing the time required to license the present generation of nuclear power plants.

Other energy bills likely to come up would encourage conservation and the development of alternate energy sources and deal with the handling of nuclear wastes.

PHOTO: CONSOLIDATED COAL CO.



Energy: December is new deadline for Carter's coal commission report.

Coal Industry Report Delayed for One Year

The speed with which the nation is able to develop its largest fossil fuel source—coal—could hinge on a study now in progress that zeros in on the full range of problems that beset the coal industry.

The President's Commission on the Coal Industry has until next December to submit its final report to Mr. Carter. The five-member commission, first established last May and then extended for another 12 months, is reviewing the state of the coal industry, ranging from the application of new technologies to labor-management relations.

Generally, industry sources blame the government's environmental regulations for retarding the industry's growth. "Hopefully, this study will illuminate some of our most pressing problems, like excessive regulations, and help us improve our markets," says Morris Feibusch, vice president of public affairs for the Bituminous Coal Operators' Association.

Says the National Coal Association's Herbert Foster: "We expect that out of this impartial study will come more stable labor relations and greater productivity in the mines." □



Safety: Vans and light trucks will get new rules by 1980.

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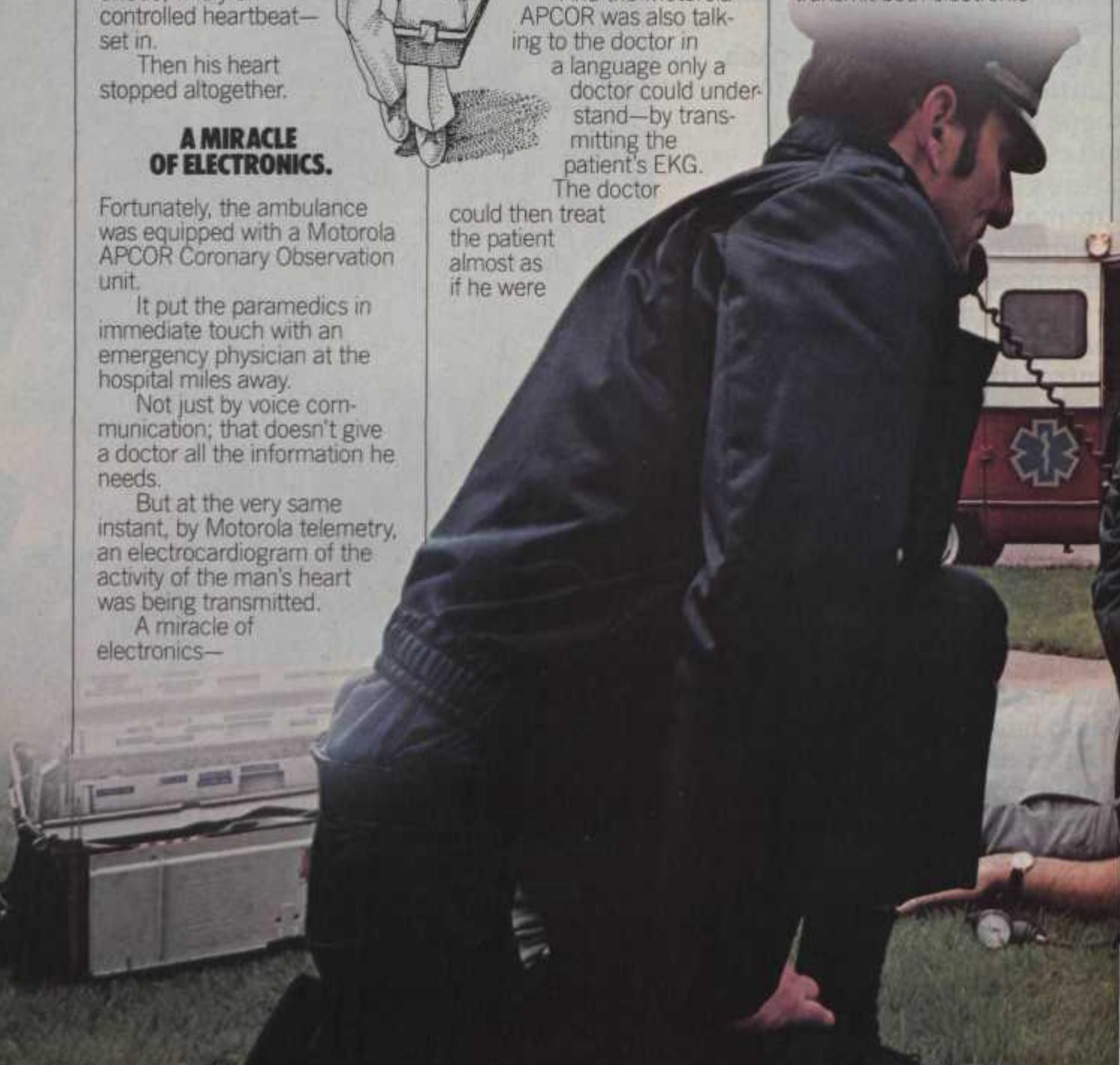
could then treat the patient almost as if he were

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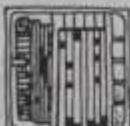


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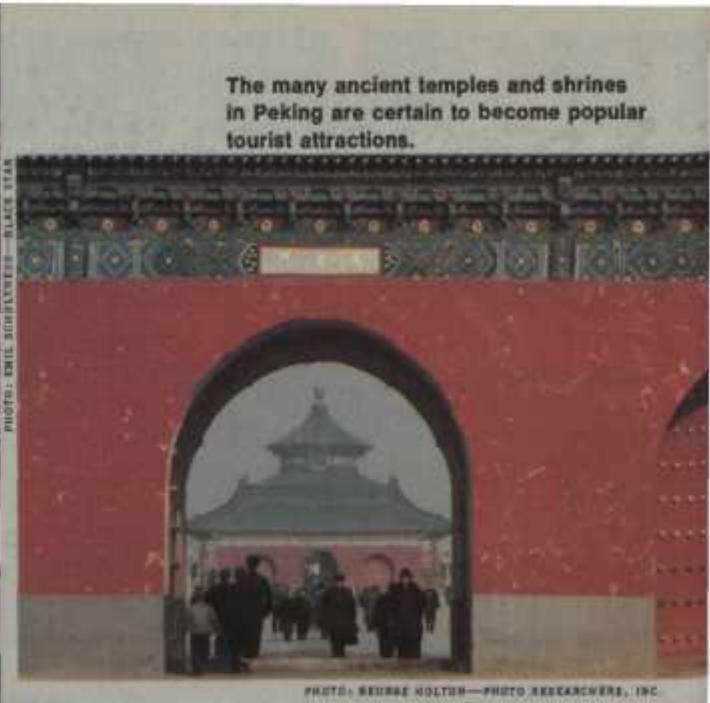
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Workmen prepare to stamp a 25-ton ingot in a 12,000-ton hydraulic press in Shanghai. The press, which can handle ingots up to 300 tons, was built by Chinese technicians.



The many ancient temples and shrines in Peking are certain to become popular tourist attractions.



Farmers in Canton plant rice by hand. This method will not soon change even with the influx of modern farm machinery.



Workmen from Tai Yuan, a city southwest of Peking, use age-old methods to prepare new fields for spring planting. The import of modern farm equipment is a high priority.



Foreigners are allowed to visit some schools in Peking. Visitors at these model schools are greeted with songs and entertainment.

PHOTO: DAVID KLEIN—PHOTO RESEARCHERS, INC.

PHOTO: DAVID KLEIN—PHOTO RESEARCHERS, INC.

China: Open for Business?

With diplomatic recognition now a reality, many trade barriers may come tumbling down

By Mary Tuthill

PRESIDENT CARTER's decision to recognize mainland China and scrap the U.S. defense commitment to Taiwan caught most of the world by surprise and stirred up a lot of political dust at home.

Before it had even begun to settle, business people were focusing on how the move would affect U.S. trade relations, not only with China but also with Taiwan, Japan, and Russia.

"American industry definitely sees a new era opening up," says Louis E. Saubolle, Bank of America's top man in China. "China wants to buy the best technology, and we have it."

That technology would require more capital than the Chinese have. Despite its estimated population of 900 million people, China is a poor country.

"The limiting factor in our trade with China is going to be how they are going to pay for it," says Frank A. Weil, assistant secretary of Commerce for industry and trade.

1977 total tripled

Yet, between 1971 and 1975, while China's economy expanded an estimated 27 percent, trade rose by 204 percent. During that time, China imported \$3 billion worth of industrial and plant equipment.

"Trade between the United States and China should amount to at least \$3 billion by 1981," says Christopher H. Phillips, president of the National Council for U.S.-China Trade. That, he says, "compares to 1978's record figure of \$1.2 billion, which represented a tripling of the 1977 total."

The council was established in 1973 to promote trade between the two countries, following the official resumption of Sino-U.S. trade in 1971. It works closely with the China Council for the Promotion of International Trade, its counterpart in China.

As normalization of relations proceeds, Treasury Secretary W. Michael Blumenthal predicts that growth in trade will be fairly rapid.

Broadened horizons

Mr. Blumenthal, who grew up in Shanghai and speaks fluent Chinese, plans to go to China "as the senior Cabinet member on economic affairs" soon after mid-February. His mission will be to set up a broad framework for expanded economic relationships, including trade, commercial, and financial arrangements.

He will open discussions on two of the most important obstacles to full trade relations:

- Claims by U.S. citizens whose assets were seized by China when the communist regime came to power in 1950.
- Failure of the United States to accord China most-favored-nation status for its exports to this country.

The claims issue, which was resolved in principle in April, 1973, probably can be settled during Mr. Blumenthal's visit.

Until then, however, any Chinese asset in the United States may be attached by U.S. claimants. That has ruled out direct banking relations, trade exhibitions, or calls by Chinese

PHOTO: JAMES ANDERSON—SYGMA



A growing number of gas pumps—this one is in Shanghai—marks China's progress toward modern methods of transportation.

flag vessels at U.S. ports. Financing of export transactions is now handled through third-country banks.

Among the companies with certified claims of more than \$1 million still unsettled with China are Exxon Corp., Caltex Ltd., International Telephone and Telegraph, General Electric Co., International Standard Electric Co., Western District Power Co., and First National City Bank.

Sticky situation

The Jackson-Vanik amendment to the Trade Act of 1974, prohibiting most-favored-nation status for any country that interferes with the right of its citizens to emigrate, will make such status for China a bit sticky because China has balked at compliance. But interest in improved trade relations appears high enough that both

sides will probably find a way to solve the problem.

Chinese officials in Washington agree that resolution of the problem is important. "With the establishment of diplomatic relations, and if all the trade barriers are removed, trade will expand," they say. "Historically, our two countries have a long tradition of trade relations."

In the meantime, Chinese exports, like those from most other socialist states, face U.S. tariffs up to 300 percent higher than for exporters accorded most-favored-nation treatment. So far, this has limited China's marketing of its products within the United States. And this limits U.S. export op-

portunities because China, like most nations, prefers to maintain as much balance as possible between imports and exports.

Buying leads to selling

Many companies now buy from the Chinese so that they can sell to them; thus some of the biggest importers of Chinese goods are also among the biggest exporters to China.

The top 15 items imported from China are feathers, fireworks, crude bristles, white cotton shirting cloth, antiques, pile floor covering, down, tea, bamboo baskets, cashews, tin, tungsten, plain woven fabric, cassia oil, and Angora goat hair.

The Chinese have revealed very little about the kind of products they are interested in buying; companies now rely on informal assessments and information gathered by other traders. Major sales already have taken place of jet airliners; ammonia plants; petroleum exploration, drilling, and refining equipment; petrochemical plant processes; computer technology; polyester staple; and machine tools.

Agricultural products will remain an important import item. The Agriculture Department reports that shipments to China in fiscal 1977 amounted to slightly more than \$1 million. In fiscal 1978, that figure was well over \$352 million, mostly because

Worried Soviets Wait and See

President Carter's recognition of the People's Republic of China was long expected by the Kremlin. What surprised the Soviets was the timing.

The President's eight-minute announcement, reversing more than 30 years of U.S. policy, came while relations between Moscow and Washington appeared on the upswing. Washington shifted diplomatic gears just as more than six years of tough talks were apparently ending in a second U.S.-Soviet strategic arms pact—an accord many Kremlin-watchers regard as the linchpin of Soviet President Leonid Brezhnev's foreign policy.

While the Kremlin does not object to normal ties between Washington and Peking, the Soviet government is wary. Marshall Shulman, the Secretary of State's troubleshooter on Soviet affairs, told a House International Relations subcommittee last fall that the Soviets were concerned that U.S. recognition of China "may be presented as directed against the Soviet Union."

A State Department spokesman says, however, that recognition "is not a function or tactic against any third country."

Mr. Shulman also cautioned the lawmakers: "Moscow has shown special sensitivity to the prospect that the United States or the West may become a source of military technology or hardware for the People's Republic of China."

Malcolm Toon, U.S. ambassador

to Moscow, dismisses any notions of U.S. arms shipments to China. "It would make no sense whatsoever," he says, "for us to supply arms to either of the two major communist countries."

He added that neither the Soviets nor the Chinese would receive from the U.S. high technology goods which have a clear military spin-off.

Britain, France, and other western nations do not share this policy. The Soviets are disturbed by China's shopping in the West for defensive weapons.

While few deals have been agreed upon, the Chinese will buy Harrier jets from the British, and have indicated interest in antitank missiles from the French, and perhaps other weaponry from Italy, West Germany, and Sweden.

Soviet queasiness over U.S.-China policy boils down to a fear that diplomatic recognition is the first step toward a formal or informal military alliance, which could include Japan and other nations. The Kremlin's aging leaders are leery of any move that could possibly encircle them with military foes.

Moscow's suspicions about Chinese motives focus on the steppes and mountains of Central Asia where perhaps one million Soviet and Chinese troops stare at each other across a 4,000-mile border. Clashes—reported and rumored—along this rugged frontier have cooled Sino-Soviet relations since the bloody

fighting ten years ago over a disputed island in the Ussuri River.

The State Department does not expect U.S. recognition of China to have a major impact on Sino-Soviet relations in the long run. An official pointed out the Sino-Soviet frontier is quiet now, and forces have stabilized over the past four or five years.

Moscow sees closer ties between the U.S. and China as part of China's calculated strategy to come out of its diplomatic shell. While this began seven years ago with President Nixon's ten-day visit, the Chinese have now thrown aside their self-imposed isolation and stepped on political turf generally conceded to the Soviets.

The Kremlin was irked by Chinese Premier Hua Kuo-feng's well-publicized trips to Yugoslavia, a communist maverick since Stalin's time; Romania, a balky Soviet ally that recently opposed a boost in military spending for the Warsaw Pact; and Iran, a politically turbulent nation that shares a border with Soviet Armenia, Azerbaijan, and Turkmenistan.

While it is too early to predict if Moscow will try to offset China's diplomatic offensive, it is certain that Kremlin leaders will keep a close watch this year on Vice Premier Teng Hsiao-ping's cautious moves toward modernization and away from the dictates of Maoism, Peking's unpredictable politics by wall poster, and China's moves in Southeast Asia and elsewhere in the Third World.

—Bob Aaron

of a poor harvest. Total agricultural shipments for fiscal 1979 will depend on whether China has another bad crop year. For the first two months of fiscal 1979, shipments already total \$175,624, compared with \$37,804 for the first two months of fiscal 1978.

The greatest growth in exports to China are expected in aluminum, computer equipment, electronics, machine tools, fertilizers, mining equipment, pulp and paper products, telecommunications, thermal power plant construction, and many kinds of technology.

Whatever the product, experienced China traders find that dealing with China is a costly and time-consuming process. For the inexperienced company, trying to develop a China market can be risky.

Stanley Young, vice president of the national trade council, says: "Any company that wants to do business in China had better be prepared to spend at least \$250,000 up front, and there is no guarantee of getting any return."

Key questions

The Commerce Department has further advice for anyone considering exports to China. One of its reports, *Doing Business With China*, warns: "It takes time and patience to enter the China market successfully, whether exports or imports are involved and whether large or small firms are involved. Prior to establishing contact for any but the simplest purchase, you should give thought to the following questions:

- Am I prepared to invest a considerable sum initially without assurance of an early return?
- Am I prepared to negotiate the first transaction for one or two years?
- Am I prepared to walk away from an unpromising negotiation at any time?
- Am I prepared to obligate the necessary senior talent and technical expertise?
- Am I prepared to resist concessionary terms in order to penetrate this market?

"If some of your answers to these questions are negative," the report advises, "you may want to rethink entering this market."

Coca-Cola's methods

The Coca-Cola Co. knows how long negotiations with China can take.

"Discussions were set in motion ten years ago," says Don R. Greene, associate director for corporate affairs.



PHOTO: SPA PRESS-BLACK STAR

China's number two man, Teng Hsiao-ping, has emerged as the architect of normalization of relations between the People's Republic of China and the United States. Vice Premier Teng, now 74 years old, has announced his intention to visit the United States early this year.



In Washington, U.S. Vice President Walter Mondale and Chai Tse-min, head of the People's Republic of China liaison office, exchange toasts at a party given by the Chinese to celebrate normalized relations between their two countries.

During those years, he says, "it has been a matter of getting to know the Chinese and building relations with them, of getting to understand their goals and their way of doing business."

Over the years, Coca-Cola has developed an exchange program with China involving sports and cultural activities. The company has also imported such things as tea and arts and crafts products.

"The particular agreement which was just signed, putting Coca-Cola on sale in China in January, has been in the works for the better part of a year," Mr. Greene says.

"The agreement was signed two days before the President's announcement and would have been announced earlier had it not been for delays in foreign travel."

It didn't take the FMC Corp. of Chicago that long, however. The company began negotiations with China in March, 1975, and by November of that year, they were selling agricultural chemicals and oil well equipment to China.

"It isn't a matter of how long it will take, but whether you have a product the Chinese want," says Robert McCullough, FMC's director of international marketing.

Higher technology

John Sodolski, vice president of the Electronic Industries Association, says that in their push to modernize, the Chinese are now looking for much more sophisticated equipment. "It's a little hard to call at this point," he says. "They just sent three delegations

to the United States, all involved with the possible purchase of satellite equipment."

Mr. Sodolski says he expects some orders to result from these visits because the Chinese need the equipment. "There are only about two million telephones there now for 900 million people," he says. "When you're trying to upgrade communications rapidly, satellite is the best way to do it."

Chinese officials indicate that they are definitely in the market for more satellite equipment. "We already have an earth ground station from the United States," they say.

Menu of projects

Some business people report that the going is easier when they are selling technology.

Recent agreements announced by Energy Secretary James Schlesinger in Peking should expand the market. The agreements include an enormous menu of projects.

The most ambitious project involves hydroelectricity. The United States has agreed to possible participation in

constructing an awesome hydroelectric dam in the Yangtze Gorge on the upper Yangtze River. The dam will have an ultimate capacity of 25,000 to 30,000 megawatts, nearly as much as China's current total electric capacity of 40,000 megawatts.

The United States may also help the Chinese solve some foundation and design problems at another hydroelectric project on the Yellow River.

Several coal projects were also listed, including the design and construction of one or more surface mines, probably in coal-rich northern China, each with an annual capacity of 20 million tons; construction of several coal preparation plants; and American participation in Chinese manufacture of mining machinery.

Developing China's coal resources will require extensive participation by American industry. As one U.S. energy official puts it: "We didn't come with order books for U.S. industry. It is up to industry to make its own arrangements."

Joint projects in nuclear physics and magnetic fusion were also proposed.

Most surprising to the American delegation was the degree of interest the Chinese showed in renewable energy resources.

"They were fascinated with our research and development," says John Deutch, energy research director for the Energy Department. "They want to send fact-finding teams to the U.S. to find out more about geothermal development, solar energy, and wind power."

The Chinese have located potential hydrothermal resources near Peking and in southern China near Canton.

Too involved

U.S. officials had hoped the Chinese would seek American aid in evaluating China's vast oil resources. That didn't happen, but Mr. Weil of the Commerce Department thinks it was because the Chinese were too involved with other negotiations, not because they are uninterested.

The silence may simply be another example of Chinese business practices. Chinese negotiators and technical aides will frequently break off talks

The Taiwan Treaty: A Turbulent Termination

The Republic of China on Taiwan has expressed outrage at what it considers betrayal by its old ally, the United States. And in Congress, the main question is whether the President had the legal right to terminate the U.S.'s mutual defense treaty with Taiwan.

Article II, Sec. 2 of the Constitution gives the President the power to make treaties, provided that two thirds of the Senate concurs, but is silent about the termination of treaties. Legal scholars disagree on whether the President needs the approval of the Senate to withdraw from a treaty. The few judicial pronouncements on the issue are not definitive.

Administration officials say they expect a legal contest, perhaps going to the Supreme Court, to decide whether the President has the authority to bypass Congress and end the 23-year-old mutual defense treaty with Taiwan.

The decision, nearly seven years after the Shanghai Communique, was not unexpected. But the manner in which it was made and what critics consider inadequate provision for continued American relations with the

government of Taiwan have created controversy and ill will.

Congress cannot overturn the President's decision, but it can modify the terms of the agreement and move to support Taiwan. "The Senate and I can try to repair the damage done to our credibility as an ally and to strengthen the situation on Taiwan," says Sen. Richard Stone (D-Fla.), chairman of the subcommittee on Near Eastern and South Asian affairs.

Also at issue is the administration's proposal to continue trade, cultural, and other nondiplomatic ties with Taiwan through a private corporation—the American Institute in Taiwan. It would be staffed with State Department officials temporarily severed from government service.

But while the diplomatic and political problems are being resolved, life and trade go on.

"The obvious question," says John L. Caldwell, vice president, International, Chamber of Commerce of the United States, "is how U.S. recognition of China will affect existing and future investment in Taiwan."

"Japan's withdrawal of recognition

of Taiwan has actually resulted in an expansion of trade between the two countries, more goods flowing from Japan than from Taiwan. Japan's investments in Taiwan have risen, too. Will the American experience follow suit? Will U.S. corporations operating in Taiwan also be allowed to operate in China?"

More specific questions were identified in 1976 by the American Chamber of Commerce in Taiwan:

- Will Taiwan still be eligible for U.S. Export-Import Bank loans and guarantees in the future?
- Will Taiwan continue to be eligible for duty-free exports to the United States?
- Will U.S. investment continue to enjoy national status under the friendship, commerce, and navigation treaty of 1948 when Taiwan is no longer officially recognized?

President Carter's memorandum of Dec. 30 resolved these questions in favor of continuing the existing U.S. relationship with Taiwan. It is too soon to tell, however, whether this will deter Taiwan from moving closer to Russia.

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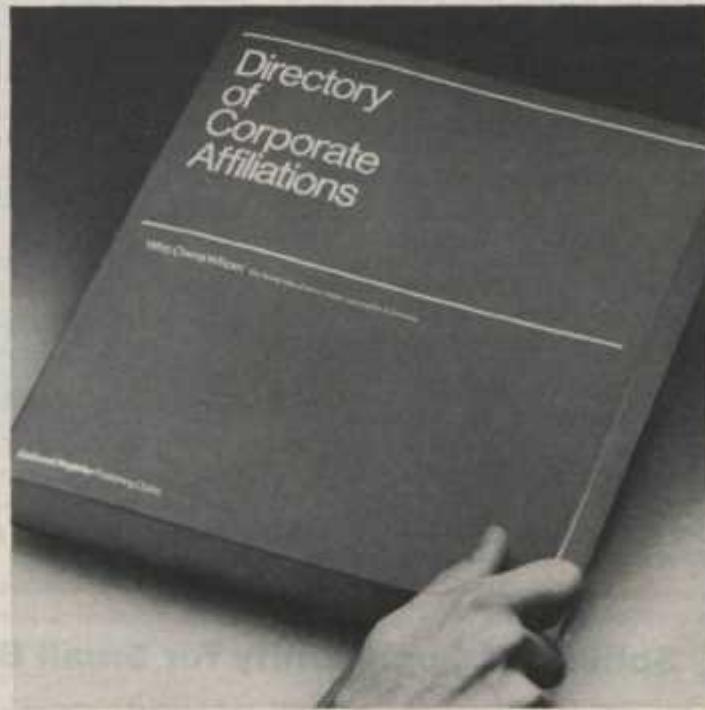
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with visiting American business people to talk to other groups. Such unnerving tactics are often effective in persuading Americans to reduce their demands rather than go home empty-handed. A New York trader likens dealing with the Chinese to playing a game of chess.

Hundreds of eager calls

But it's a game that business is eager to learn. "We're getting hundreds of calls from every industry in the country," says Ian Macfarlane at Commerce's Bureau of East-West Trade.

However, Mr. Macfarlane says, "when a country normalizes relations with China, it has not been a great boon to trade, in and of itself. If trade was expanding, it continues to expand. But if it wasn't, there is usually little change."

U.S. trade, he says, has been expanding rapidly, and just before the President's announcement, the department had projected \$1.6 billion in trade this year, compared to just over \$1 billion last year.

Nor does Mr. Macfarlane see a big

problem in how the Chinese will pay for imports. "Their credit is good and they haven't borrowed anything yet," he said.

Such loans might have to be transacted between governments until the claims problem is resolved, but Commodity Credit Corporation loans are already available to the Chinese under the Agricultural Expansion Act for the purchase of agricultural products. The House Banking Committee is preparing legislation to make China eligible for Export-Import Bank loans, and some private banks are trying to find ways around the claims issue.

A State Department official agrees that normal relations will expedite Sino-U.S. trade, but "in the first few years, it will be hard to pinpoint whether the increase is a response to normalization or just their increased interest in commercial relations."

Institutional barriers

The major boost for trade, he adds, is that "normalization will eliminate the institutional barriers to trade."

As trade increases and China contin-

ues to import increasing amounts of U.S. technology, there also will be a dramatic increase in the number of Chinese students entering this country.

"They need engineers, and they know it," says Mr. Macfarlane. He estimates that within the next few years, up to 40,000 Chinese students will be sent abroad for study. Within two weeks of President Carter's announcement, the first group of 50 scholars had arrived, and another 500 students were on their way.

Exports present problems

Although all of these moves toward closer ties with China have been going rather smoothly, problems also exist.

"The greatest potential problem," says Mr. Weil, "is the export of competing products such as textiles."

In fact, the United States is already dealing with this problem.

From almost no involvement in the U.S. textile market six years ago, China has become this country's sixth-largest supplier of fabrics after Japan, Hong Kong, Korea, Taiwan, and India. This rapid growth has led to outcries from U.S. producers and the opening of talks with China on limiting its exports of cotton goods to this country.

The export-import problem also looms large in future relations with Taiwan, say some observers. "China will undoubtedly attempt to move Taiwan from complete diplomatic isolation to complete economic isolation," says Jeffrey Gaynor, director of foreign policy studies for The Heritage Foundation.

First press conference

Whether normal relations with China will prove to be as beneficial as expected, or whether the problem of Taiwan will be as dire as some predict remains to be seen.

Vice Premier Teng Hsiao-ping, in his first press conference, pushed for speedier reunification with Taiwan—within this year, he says.

And, in an effort to allay fears about future relations with Taiwan, Mr. Teng has invited Sen. Barry Goldwater (R-Ariz.), an outspoken critic of President Carter's action, to visit Peking and discuss the situation.

"My views have changed in the past, as did those of Mao Tse-tung and Chou Enlai, and perhaps Sen. Goldwater's will, too," Mr. Teng said. "Our views change because the world changes." □

Sphere of Opportunity for Small Business

Normal relations with the People's Republic of China are expected to bring small and medium-sized businesses into the sphere of China trade.

Ian Macfarlane, of the Bureau of East-West Trade at the Commerce Department, says his five telephone lines have been busy since President Carter's announcement. "Most of the calls are from medium-sized and small businesses. Big business is already over there."

Representatives of China in Washington agree that normalization, especially after the trade barriers are removed, will make trade easier and will encourage smaller businesses to trade with China.

Imports, they say, will probably prove most attractive for small business, but the markets will take some time to develop. Those interested must first learn what items are available and how to find the best quality and price. "It won't happen overnight," they add.

China's program of modernization is not just aimed at agriculture. "We also need advanced technology and

equipment," Chinese officials say. They believe that small business can enter these markets, supplying the same type of products which until now have been purchased from the large, better-known U.S. companies.

A company that has a product known to be wanted by the Chinese can deal directly with China in establishing trade relations. But other businesses, the officials advise, should contact the many trade missions which travel to the United States and China.

China's new embassy here lists the following contacts for businesses interested in trade:

- The National Council for U.S. China Trade.
- Industry associations. They often invite trade groups to the United States and sometimes send groups to China.
- Large corporations that sometimes invite trade groups to the U.S.
- The Chinese Embassy. If a trade group is known to be coming to the U.S., the embassy will provide any information it can to interested business people.



To order reprints of this article, see page 64.

Yesterday's Heresy Is Today's Gospel

Chinese business managers discover the joys and rewards of material incentives

By William M. Ringle



Bags of polished rice for export are sewn up by hand at a grain processing plant near Canton.

CHINA TODAY is obsessed with material incentives—overtime, extra pay for exceeding production quotas, and awards for ideas.

A sign of the Chinese devotion is that almost every factory is under state order to pay in bonuses an amount equal to 12 percent of its payroll.

As recently as three years ago, this was rankest heresy.

But now the official journals are doing ideological headstands to explain why a practice that was reviled as capitalist not long ago is orthodox Marxism today.

An appreciation of how genuinely radical the change is can be gained from a comparison of the attitudes of Chinese business managers during President Nixon's visit to China in 1972.

A group of Americans touring the Dong Fang Hong—the East is Red—auto works in Peking were shown a number of homegrown innovations and inventions that the factory managers said had resulted in prodigious production.

One American wondered if an award

MR. RINGLE, chief correspondent of *Gannett News Service*, has visited China four times and has studied the progress of U.S.-China relations over the past two decades.

average 47-48 yuan (\$28-\$29) monthly pay in the shop.

Despite the about-face, factory officials still pay obeisance to the principle of service to society.

"Our main method of encouragement is still spiritual," insists Chang Kuo-liang of the factory's political department. "We have such rewards as a photograph in the advanced workers' column, displayed in the entrance hall of every state enterprise."

The Chinese also award citations or banners, which in some workers' homes are displayed the same way sports trophies or diplomas are in U.S. homes.

Similar plants

There is also a pervasive emulation system which pits teams of workers against model teams in their own plant and matches entire plants against similar plants. The model worker title is another psychic incentive.

So far, the money to fuel incentive systems hasn't come directly from each factory's earnings or from workers' total wages, says Prof. Liu Kuang-chieh, associate professor of economics at Wuhan University.

"Now, the state gives the money for the bonuses, and this is added to the total wage figure. But the future size of the bonuses will be linked to the efficiency of the plants.

"There is some idea of taking the bonus fund in the future from a part of the enterprise's profits and using it to improve the workers' amenities," says Prof. Liu.

The 12 percent bonus and incentive experiments such as the Cheng-tu plant's suggestion system are in addition to the ten percent wage increase granted last October to 64 percent of China's industrial workers. Following a period of slowdowns, absenteeism, and even a few strikes, the increase was the largest in China's history and the first sizable increase since 1956. The lowest paid workers with the greatest seniority got the biggest share of the raise.

Keep some profit

In Szechwan Province, officials are planning another method of increasing workers' fringe benefits.

The province, which has considerable autonomy in economic development, will permit any factories that have fulfilled their state plans to keep a certain amount of the profit to improve the amenities. These usually mean housing and the cafeteria, but



Workers at the People's Commune of Ma-Lou near Shanghai sort cotton. Despite such primitive methods, cotton production is high, and the fiber represents one of China's major export items.



Modernization of plants will help China compete in worldwide markets. Much of the modern industrial equipment is likely to come from the United States.



All the skilled workers in an optical plant are now getting overtime and other cash rewards for increased productivity. One of China's major goals is to spur production.

might also include the health and day care centers or after-work educational, recreational, or cultural facilities.

In factories where scrupulous workmanship is critical—such as the mill in the historic resort city of Hangzhou that weaves the brocade and printed silk for which that city is world famous—the quality of a worker's output is considered in judging him or her for a bonus, says Chan Kuo-hsien, director of the manager's office at the Hangzhou plant.

The incentive for quality goes further at the Shanghai optical instrument factory. The person who turns out exceptional work is in line for promotion as well as bonuses, says Liu Feng-chang, the factory's deputy director.

Modernizing programs

This drastic turnaround is part of a bigger picture. China's leaders have embarked on specific programs to modernize industry, agriculture, science and technology, and the military by 2000.

Much of the money for modernization is to come from increased production. And China's leaders have embraced the pragmatic conclusion that workers produce more when it is in their immediate self-interest.

For a society that pledges allegiance to Karl Marx, who decreed, "from each according to his abilities, to each according to his needs," the 180-degree shift in position has not come without some agonizing.

Not there yet

To inquiring foreigners, the Chinese offer the explanation, usual in communist nations, that Marx's prescription is for the ultimate state of communism; they are still at the intermediate socialist stage.

To one visiting American businessman, who remarked that workmen at the Wuhan Heavy Machine Tool Co. did not seem to be working very hard, the manager admitted that they still had not been motivated sufficiently to abandon the old attitudes. And Vice Premier Keng Pao, in Peking, conceded that the nation suffered from a shortage of skilled plant managers.

From the U. S. standpoint, that may not be all bad. For if material incentives do take hold, they could lead to an American marketing nightmare: China flooding the world market with modern machine tools, steel tubing, or fine optics produced by workers paid an average of \$30 a month. □

What Labor Wants From the 96th Congress

By William Kroger

THE HALLS and anterooms off the main floor of the House of Representatives were jammed. Lobbyists of every label were cornering one congressman after another, pushing their individual viewpoints.

The tones were hushed, but the intensity of the conversations charged the atmosphere. The time was last February. The legislative issue was the creation of a federal consumer protection agency. And the scene was typical of a major labor effort to wrest what it wanted from the 95th Congress.

However, the bill failed. It joined other failures of labor objectives—common site picketing and labor law reform among them. These defeats, coupled with the more conservative leanings of many new congressmen, have led to some uncertainty among labor's legislative leaders over the best way to deal with the 96th Congress.

One business lobbyist says that if the unions are to gain any legislative advantages, they must move quickly. He believes that organized labor may pull out all the stops in the next two years to push for pet initiatives.

Nothing to lose

"Labor has nothing to lose on some of these issues and everything to gain," says Charles T. Carroll, assistant director of legislation for the Associated General Contractors of America. "I think the unions will try almost anything if they feel they have a chance."

One of the things labor might try is to keep business forces occupied in fighting perennial antibusiness issues.

Says Victor Kamber, director of the



Repeated criticism of President Carter's economic policies by AFL-CIO President George Meany is apparently paying off. The administration has agreed to halt attempts to change the minimum wage and Davis-Bacon laws, both labor standards.

AFL-CIO's labor law task force: "I see an attempt to go after the business people either through antitrust kinds of legislation or the Ralph Nader stockholders' bill of rights, both of which go to the heart of the corporate structure in this country.

"I say this not as a warning or a threat, but just to tie you business people up and let you spin your wheels fighting that kind of legislation instead of killing us left and right."

This kind of offensive defense was summed up by another union official who said: "The name of the game in



Labor law reform is more than 40 years overdue, says Kenneth Young, the new legislative director of the AFL-CIO.

the 96th Congress is to hold on to what we have."

That's probably what organized labor will try to do, at least this year. But a word of caution is necessary. Labor's worried mood could be interpreted as a sign of weakness. It's not.

Anyone who has ever dealt with Kenneth Young, new legislative director of the AFL-CIO, or with Howard G. Paster, legislative director for the United Auto Workers, knows that these men have mastered the game of politics.

They can be expected to go after

Kenneth T. Blaylock, president of the American Federation of Government Employees, says Hatch Act reform will restore basic political rights to federal workers.

With contracts covering 400,000 of his Teamsters expiring next month, President Frank E. Fitzsimmons is concerned about the effects of wage-price guidelines.



PHOTO: MERKLE PRESS

what they feel they can get, to make a few end runs when necessary, and to maintain labor standards.

Mr. Paster says that while Congress may be shifting toward the center, "we still have our friends."

To find out what labor wants from the 96th Congress, NATION'S BUSINESS talked with the leaders and top legislative people of the AFL-CIO and six major unions—the Teamsters, National Education Association, United Auto Workers, United Mine Workers of America, American Federation of Government Employees, and the American Federation of State, County, and Municipal Employees.

Setting the pace

The AFL-CIO, with a membership of nearly 14 million people, traditionally sets the pace for many labor initiatives in Congress. AFL-CIO leaders are now exploring a number of issues, and some major decisions are expected from the federation council's meeting later this month in Bal Harbour, Fla.

One issue sure to receive top billing is labor law reform, a measure which business contends would give unions too much clout in organizing, especially of small businesses.

"Labor law reform is more than 40 years late. It's long overdue," says Mr. Young. "We are convinced workers

just don't have the rights they're entitled to under present law."

Labor law reform was high on the legislative lists of all the unions contacted, even though it would not affect those whose members are government employees.

Labor may attempt to push labor law reform through Congress in a piecemeal fashion, but several unions, including the United Auto Workers, want to keep one strong bill.

Mr. Young says the AFL-CIO will also oppose cutbacks in funding for such programs as government-subsidized jobs, health care, and education. There are ways to reduce the budget deficit other than by cutting funds for social programs, he says.

"We're convinced the main causes of inflation involve the high cost of energy, tight money, expensive health care, and high food prices. Yet, it seems to us that the business community, the administration, and the media are saying that the main cause of inflation is wages. We think that is just factually wrong, and working people—organized or not—are just being made the scapegoats."

The union that would be most severely affected by cutbacks in social programs is AFSCME, whose membership of about one million state and local government workers would feel the

impact of cuts in public service jobs and welfare programs.

"The concept of a budget deficit being a sin against man, woman, and beasts of burden is nonsense," says Jerry Wurf, AFSCME president.

"If you cut out federal programs, the quality of life in many cities will change. There will be no care or compassion for the old and poor, and the prisons will make 18th century England look good."

Substantial heat

Another issue high on all unions' legislative lists is health care. With a few reservations, the unions are solidly behind the comprehensive national health insurance plan advocated by Sen. Edward M. Kennedy (D-Mass.) in the last Congress.

National health insurance is a top priority for the United Auto Workers. "I won't predict passage of national health insurance," says the UAW's Mr. Paster, "but I will promise that the heat will be substantial."

Organized labor may introduce national health insurance in bits and pieces in the hope that at least some of them will be approved. Mr. Paster says, however, "we will oppose any incremental approach. We want one comprehensive bill that can be phased in over a period of time. We want spe-





Jerry Wurf, head of the American Federation of State, County, and Municipal Employees, says that cuts in social programs to reduce the budget deficit will change the quality of life in many cities.

cific language saying certain things will happen on certain dates."

National health insurance is also a top goal of the mine workers. Last year's lengthy coal strike resulted in a contract which, while garnering a 39-percent increase in wages and fringe benefits over three years, ended free health care for the miners, who must now pay a deductible.

Mr. Young says national health insurance "would not involve that big a

cost, because the cost comes out of the economy right now. It would just be a different way of distributing the expense."

One business legislative expert says union support for national health insurance involves more than altruism. National health insurance would take health care out of the bargaining process, leaving the unions free to push for other goals in their negotiations.

Because of its high cost, a comprehen-

sive health care program will probably not get through the 96th Congress. However, individual health bills such as catastrophic insurance for major illnesses may be approved.

Another issue generally supported by most unions is public financing of congressional campaigns, which business opposes.

"This is an issue we'll spend a lot of time on, and we're strongly supportive," says Mr. Young. "We think the past election demonstrates the need for it."

Voluntary network

Public financing of congressional campaigns is expected to surface as early as this spring, probably in the House.

Approval of this measure would allow unions to divert political action committee funds away from campaigns to such activities as registration and get-out-the-vote efforts. This would enhance labor's already extensive voluntary network. Business believes public financing of campaigns would give union-supported candidates the edge in campaigns.

One issue on which labor and business generally see eye to eye is next year's increase in social security taxes. Business is making a major push to have the increases delayed, and most unions, while not outspoken on the issue, seem to be supportive.

Mr. Young says the tax changes passed last year "gave no relief to the working people." The federation would support financing of the social security system from general revenues.

Inflationary impact

The AFL-CIO and all unions will vigorously fight any effort to delay pending minimum wage hikes, which went from \$2.65 an hour to \$2.90 an hour last month and are scheduled to increase again in the next two years to \$3.35 an hour.

"The inflationary impact of an increase in the minimum wage is nil when compared to the impact of an increase in interest rates—it becomes completely nonexistent," says an AFL-CIO spokesman.

"Further, it would be inhuman to try to solve the problems of inflation by taking it out of the hides of the lowest-paid workers in America."

The AFL-CIO will oppose any change in the Davis-Bacon Act, which requires federal construction contractors to pay workers no less than the average prevailing wage in the area.

These areas are set by the Labor De-

partment and can encompass localities many miles distant from a work site. For example, if a site is in a rural area, and the area wage survey includes usually higher metropolitan wages, salaries paid at the rural site will be forced up. The practice, which many economists say is inflationary, can affect wages at nonfederal rural construction projects nearby.

"We'll oppose any effort to cut back on any labor standard in the name of fighting inflation," Mr. Young says. The Teamsters union, which also represents workers in the construction industry, will join the AFL-CIO in opposing any changes in the Davis-Bacon Act.

Deregulation of trucking

One of the Teamsters' biggest issues in this Congress will involve opposing efforts to deregulate the trucking industry. The 16,000 surface carriers that are regulated by the Interstate Commerce Commission are well organized in their opposition to deregulation. They have a formidable ally in the Teamsters.

Sen. Kennedy, a proponent of trucking deregulation, is expected to pursue the matter as head of the Judiciary Committee, but any action in the Senate must come through the Commerce Committee, chaired by Sen. Howard W. Cannon (D-Nev.). Other proponents of deregulation include large shippers, many consumer groups and the administration.

The Teamsters oppose deregulation because of its threat to jobs and pay. Deregulation would force increased competition in the regulated trucking industry, and that could reduce the

John Ryor, president of the National Education Association, would like to see a separate department of education, but this goal faces formidable odds.



number of jobs and result in tougher bargaining on wage increases.

A Senate Commerce Committee spokesman says he does not expect the trucking deregulation issue to be settled during the 96th Congress; it could even extend into the next two congresses, he says.

Separate department

Stanley J. McFarland, director of government relations for the National Education Association, says its top priority in this Congress will be the creation of a separate department of education, an effort begun in the 95th Congress.

He expects the campaign to be difficult. "People may ask, why create a new department of education when billions of dollars are being cut from social programs," he says. "I'm concerned that we may lose this effort."

Another problem facing the NEA is the stance of the AFL-CIO and its affiliate, the American Federation of Teachers. Both organizations oppose a separate department of education which, according to a spokesman, would create another level of bureaucracy.

Mr. McFarland says the NEA would like to see federal education funds to the states increased from the current seven or eight percent. Extra funding, the NEA says, would help to implement provisions of such measures as the Education for All Handicapped Children Act of 1975.

This law, which will have oversight hearings this year, requires school districts to provide equal access and education for the handicapped.

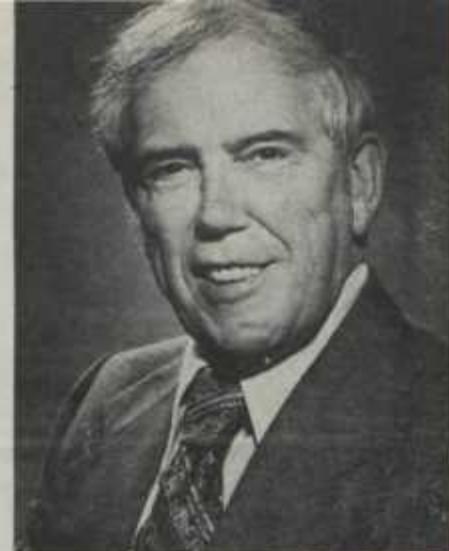
The problem, the NEA says, is that the federal government mandates criteria but provides little if any funds to meet the criteria, leaving overburdened school districts the choice of finding the money or breaking the law.

"The federal government hasn't put enough money into the program, but some state and local governments haven't done so well, either," says Mr. McFarland.

Collective bargaining

The NEA is also interested in collective bargaining for public employees. The NEA and AFSCME are the largest members of the Coalition of American Public Employees, whose main goal is to obtain collective bargaining rights for public workers.

"About 36 states now have some form of collective bargaining arrange-



United Auto Workers chief Douglas A. Fraser organized the coalition of coalitions, which could become a major lobbying force behind basic labor goals.

ment; the others do not," Mr. McFarland says. The NEA "is looking for something like a national labor relations board at the federal level to handle state and local government management-labor disputes." With such a system, he says, collective bargaining would be the same everywhere in the country.

As can be expected, the United Mine Workers union supports energy legislation that would promote coal production and opposes any proposals that might result in a loss of jobs.

Coal slurry pipelines

The union will fight any efforts in Congress to allow coal slurry pipelines to be built on railroad rights-of-way. The union feels such pipelines will benefit western coal producers at the expense of producers in the East where most UMW members work.

A proposed coal pipeline act failed in the House last year. The act would have set up a certifying process for coal slurry pipelines. The Senate passed the proposed act in 1974. The measure is expected to surface again this year.

The main priority of the American Federation of Government Employees is to reform the Hatch Act, which prohibits federal employees from engaging in most political activities. The union says reform would restore to federal employees the basic political rights of all American citizens.

President Carter supports Hatch Act reform which passed the House last Congress but did not clear the Senate. An AFGE spokesman says that if reform is approved, "we're going to get the union members politically active."

AFGE is also concerned about pro-

posals to alter the federal pay structure. In 1977, according to government statistics, the average federal civilian pay was \$17,404. Average state and local government workers' pay that year was \$12,230.

Proposals for change include setting federal wages by region—less pay in an area where the cost of living is lower—and restructuring pay grades in the blue-collar work force.

The AFSCME and NEA support the State and Local Fiscal Assistance Act, which expires on Sept. 30, 1980. Renewal will be an issue in this Congress. Critics of the program, commonly called revenue-sharing, want to cut back spending or kill it altogether. Fiscal 1979 funding is at \$6.85 billion.

The act, passed in 1972, provides funds to state and local governments to be used for almost anything state or

local law allows. One third of the funds goes to states; two thirds goes to local governments.

Mr. Wurf of AFSCME feels the program could be improved. He says program funds should be used as an incentive to governments, targeted to areas where, for example, taxation is equitable. Built into this program, he says, should be a system that would increase financial aid to areas experiencing unemployment above a certain level, possibly six percent.

New coalition

Buttressing all the unions' efforts on Capitol Hill will be a new organization loosely called the coalition of coalitions. It was formed in Detroit last October, partly in response to union and liberal losses during the last Congress.

"I thought we won the 1976 elec-

tion," says Douglas A. Fraser, president of the United Auto Workers, who called the organizational meeting. "I thought we were going to have better days. But we've had one disappointment after another as right-wing business groups increasingly control the political process."

About 100 different groups ranging from unions to professorial associations to child development experts, women's rights activists, and welfare organizations attended the meeting. The coalition is to have a small staff and headquarters in Washington.

Although the coalition is not expected to become a major lobbying force in the short run, it will unite organizational support behind basic labor objectives.

As Mr. Fraser puts it: "There are more of us than there are of them. We just have to get organized." □



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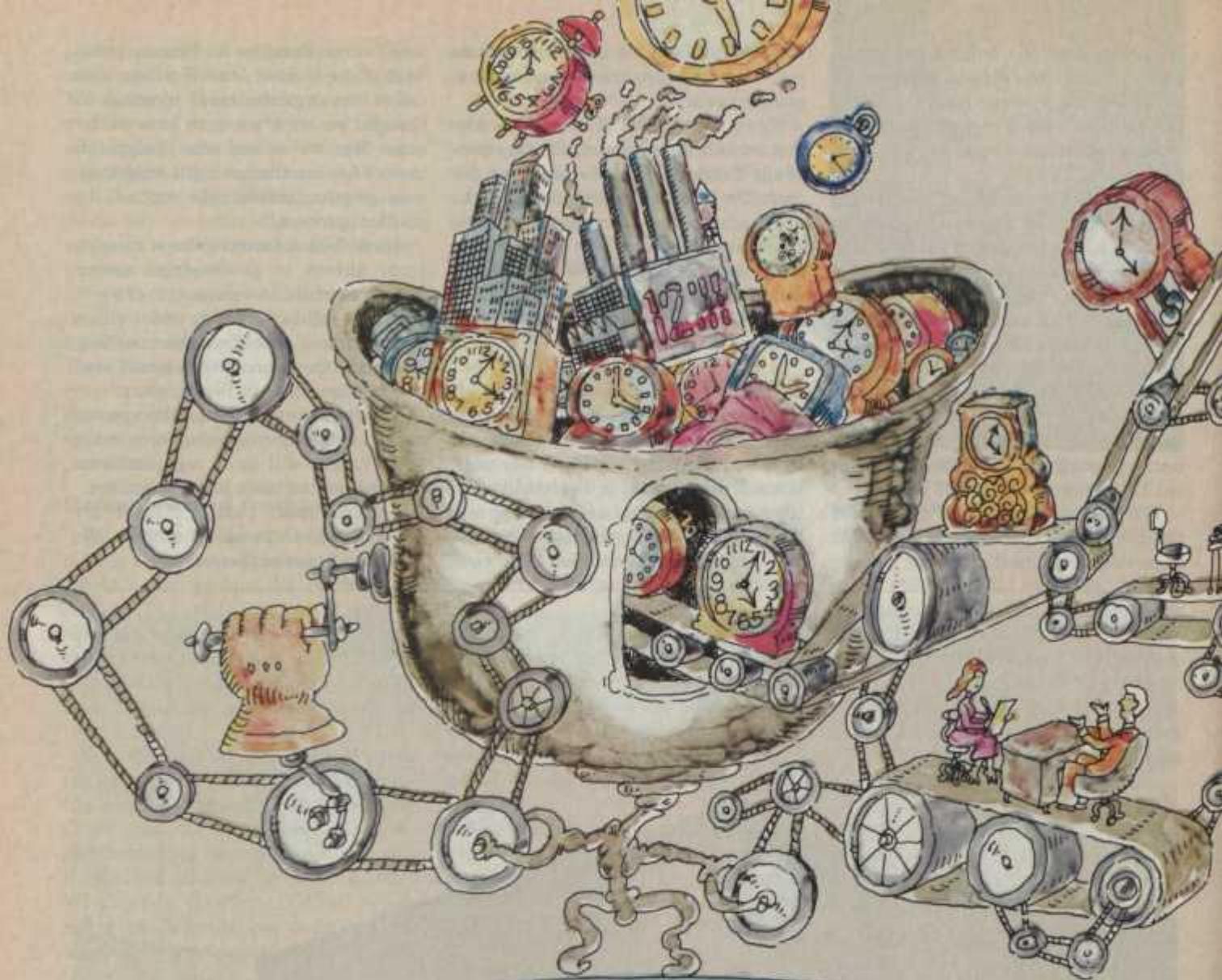
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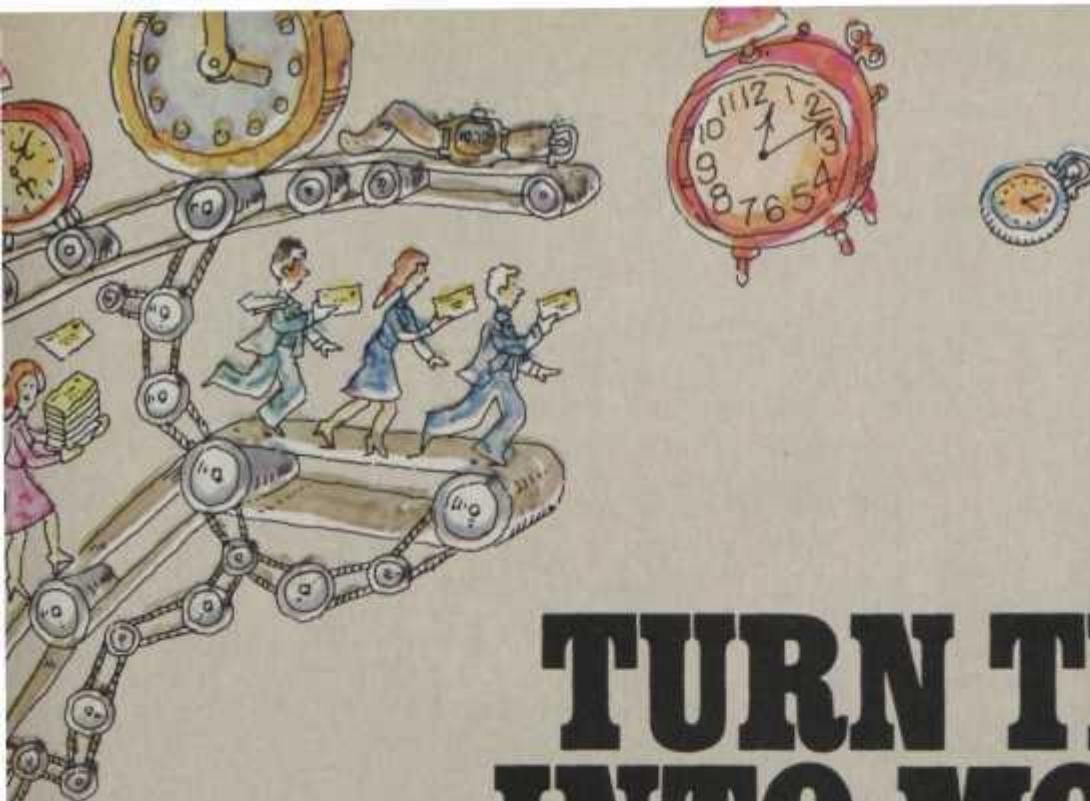
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Performers, technicians, and observers jam the stage of the Grand Ole Opry, the largest television stage in the U. S.—120 feet wide and 70 feet deep. The shows are presented every Friday and Saturday for live radio broadcast, and anything can—and does—happen.



Thrilling rides and musical attractions like this riverboat stage entertain visitors to Opryland, U.S.A., theme park.



Few entertainers can match the appeal of these country music stars—all products of Nashville: Glen Campbell, Dolly Parton, and Hee Haw's smooth-singing Roy Clark.

Many of the entertainment world's headliners come to Nashville to tape television specials like this one with Ann-Margret (far right), Perry Como, Bob Hope, and Minnie Pearl.

Country Music Makes the Bottom Line Boom

Grand Ole Opry packs 'em in every weekend, while Music Row records 24 hours a day. It all adds up to great ole profits

By Tony Velocci

STRAPPED INSIDE a Soviet-built helicopter, a group of Tennessee industrial developers and their African hosts skim over a grassy Somalian plain.

Former Governor Ray Blanton, puzzled by the rhythmic finger-tapping of the two Somali crewmen, politely gestures toward the crew's headsets. Obligingly, the pilot hands his over.

A moment later, Mr. Blanton is grinning broadly. Coming through the earphones, 7,000 miles away in Nashville, is the Grand Ole Opry—live.

The point of this real-life story is the extraordinary, worldwide appeal of the folksy sounds emanating from Tennessee's capital. Country music's popularity in the past 25 years has grown tremendously, and the Grand Ole Opry, the longest running live radio show anywhere, has been a major factor.

How big is country music?

In the late 1950s, only 70 radio stations in the U. S. programmed country music full-time. Today more than 1,150 stations representing every major North American market play it full-time. During 1976, the top five syndicated country TV shows, including *Hee-Haw*, were seen by more than 40 million adults.

Outside the United States, the largest country music attraction is the International Festival of Country Music at Wembley Pool in England, which also tours other European cities.



Barbara Mandrell, one of the most versatile country music artists, was a show biz veteran at 14. A top vocalist, she also plays four instruments.

In its 1978 annual report, K-Tel International, Inc., which merchandises a variety of musical products through 48,000 retail outlets around the world, says: "Although country music is most commonly identified as an American phenomenon, K-Tel's country compilations have been promoted successfully in every operating zone."

Monetarily, all this translates into a multimillion-dollar industry. It is impossible to compute precisely how much money the country music business generates annually; estimates range from \$200 million to more than \$400 million. However, certain facts provide clues to the economic impact that country music has on Nashville and the state of Tennessee.

In 1978, according to the National Association of Recording Merchandisers and the Recording Industry Association of America, country music grossed nearly \$400 million from recording sales alone.

Nashville garners most of the money generated by country music, since the industry is centered there. Much of the action takes place along Music Row, a mixture of sleek modern buildings and ramshackle bungalows, which is home for 57 recording studios and most of Nashville's 2,400 union musicians.

During 1977, the musicians were paid a total of about \$4 million for performing in more than 15,000 recording sessions—a 14 percent in-

crease over the previous year. Studios record 24 hours a day and produce more than half of all record singles made in the United States.

There also are seven record pressing companies and about 250 music publishing firms in Nashville. Thirty-four talent agencies book more than \$100 million worth of country music acts out of Nashville annually. Top Billing, for example, grossed \$5.5 million in 1978—an increase of \$1 million over the previous year. And three of the major performing rights agencies in Nashville acquired about 2,000 new songwriters in 1977 alone.

Mecca for millions

If the talent agencies, record pressers, publishing firms, and recording studios are the meat and potatoes of the country music business, then the Grand Ole Opry is the caviar. Thousands of devoted fans from all over the world travel to the Grand Ole Opry every year; it is the mecca of country music. Annual attendance hovers near the one million mark.

The Grand Ole Opry is actually a two-and-a-half-hour stage show that is broadcast live over 50,000-watt clear channel radio station WSM. Shows are

presented each Friday and Saturday night. Both WSM and the Opry are offspring of a Nashville insurance company.

In 1925, the National Life and Accident Insurance Co. was granted a license to operate a radio station to help promote its name and product; the call letters WSM stood for: "We Shield Millions." This was not so unusual back then. As with most early radio stations, the call letters usually had a meaning. For example, Sears, Roebuck & Co. originally owned Chicago station WLS. The call sign came from the motto: "World's Largest Store."

An 80-year-old fiddler who claimed he knew a thousand tunes and George D. Hay, a 30-year-old announcer, took the mike one Saturday and inaugurated the WSM Barn Dance. The program was aired every Saturday evening thereafter, following a nationwide presentation of classical music from New York.

At the start of one of those early broadcasts, Mr. Hay informed his listeners: "For the past hour you have been listening to music taken largely from Grand Opera, but from now on we will present the Grand Ole Opry." The name stuck.

Part of the excitement of attending a

Grand Ole Opry performance is its down-home, zany informality. It is a unique experience—no two shows are alike.

The house is always packed. A large advertising billboard carrying a sponsor's message is unfurled behind performers as they step up to the microphone. Other performers waiting for their cues, stagehands, and guests of Opry employees mill around on the sidelines, and a musician or two engages in some form of antics while performing.

Clap and stomp

Meanwhile, in the audience, mothers coddle youngsters in their laps, and folks from 18 to 80 clap their hands and stomp their feet to the strains of country music.

In 1974, the Grand Ole Opry moved from its nostalgic surroundings at the downtown Ryman Auditorium—a converted tabernacle that is now referred to as the mother church of country music—to an elaborate \$15 million auditorium that seats 4,400 people and houses the world's largest broadcast and television studio.

The new Opry House, located about nine miles from downtown Nashville,

Down Home on a

PHOTO: BILL LAFEVER



Leading country music stars like Minnie Pearl and Roy Acuff perform regularly at Nashville's Grand Ole Opry, the nation's longest running live radio show. The homes of both stars are among major attractions for fans visiting Nashville.

Country music comes close to being an American popular music form, says Barbara Mandrell, the youngest member of the Grand Ole Opry.

"Country performers borrow tunes from other fields such as rhythm-and-blues and adapt them to their own individual styles. Performers in other fields do the same with country songs. It is often hard to tell one from the other."

To understand country music's popularity, you must first understand the music itself and the performers.

Much of country music comes from the back roads of the South and expresses the joys and hardships that many Americans experience every day. Country music tells real-life stories; it does not deal in abstract lyrics. It is often spontaneous and has an earthy quality that gives it universal appeal. Many country artists have a background in gospel music.

Roy Acuff, generally regarded as the king of country music, was born

sits between Opryland, U. S. A., on the left—a 217-acre entertainment and recreation theme park—and the 614-room Opryland Hotel on the right, Tennessee's largest convention hotel. Together, they form the \$66 million Opryland complex.

As a 1977 edition of *Lighting Dimensions* magazine puts it: "The approach to the complex is quite impressive. The surrounding mountains and trees all say country, but the buildings, the theme park, and everything you approach says money."

The entire Opryland complex is owned by National Life, which, in turn, is part of NLT Corp., whose other investment properties include a property and casualty company, a real estate and management development company, a computer services firm, and another life insurance company based in Des Moines. WSM and the Grand Ole Opry form a very small percentage of NLT's total assets of about \$3.5 billion.

Irving C. Waugh, a former president of WSM, Inc., was instrumental in the conception of the Opryland complex, a booming moneymaker.

"I didn't see how I could justify asking our board of directors to spend mil-



Even Christmas has a country flavor as superstar Johnny Cash and his wife, June Carter Cash, tape a television special. Opryland Productions' television facilities have been acclaimed as the best in the world.

Suburban Estate

and raised in the mountains of eastern Tennessee. His dressing room behind the Grand Ole Opry stage is filled with memorabilia that trace his 40 years as an entertainer.

"You have to be exposed to country music to be able to appreciate it," says Mr. Acuff. "Anyone who has a home he is proud of and is willing to listen to the kind of songs that we sing at the Opry will find something he can accept about country music."

Regardless of the level of stardom they may attain, the performers never forget their roots—most rose out of poverty—or the period when country music was disdained as low class. For that reason, country performers rarely put on airs; there is no pretense about them. They are grateful for the recognition and money that country music has brought them.

"When I first started fiddlin' 40 years ago, country music was considered nothin', but now we're welcome in all parts of the world," says Mr.

Acuff. "Were it not for the Grand Ole Opry, it's doubtful that some of us would ever have been known."

Web Pierce, who lives near the governor's mansion, has similar feelings. During the warm months, when he is not on tour, he sometimes relaxes in his 100-foot-long swimming pool shaped like a guitar.

"I remember when I was a country boy pickin' cotton on my knees in Louisiana," he says.

"Who built this home for me? The public. Who made me a multimillionaire? The public. I am obligated to the public, and I do my best to return something to them."

Besides his music, Mr. Pierce returns to the public a part of himself. He puts out the welcome mat for country music fans who wish to visit his home and sit and chat with him whenever he is around.

Although Mr. Pierce's openness to his fans is probably unique, he is only one of many country music superstars

whose picturesque estates attract fans. Up the street from Mr. Pierce is the home of Mrs. Henry Cannon, who is known on stage as Minnie Pearl.

Package and sightseeing tours are just another money-making offshoot of country music.

Along with stars' homes, fans can visit the Country Music Hall of Fame, the Country Music Wax Museum, and specialty clothing stores crammed with western-style clothes and accessories ranging from square dancing outfits to sequined jeans.

The volume of business generated by the tour agencies may be peanuts compared to that of the publishing houses and recording studios, but it is still significant. According to the Nashville Chamber of Commerce, about 39 percent of the tourists take guided tours. There were 488,000 paying visitors to the Country Music Hall of Fame last year alone.

Having country music stars around can do a lot for a neighborhood.



Roy Acuff (standing), singer, fiddler, and king of country music, rehearses in his dressing room with some of his Smokey Mountain Boys (from left) Gene Martin, bashful brother Oswald Acuff, Billy Grammer, and Charlie Collins. In the early days, the Grand Ole Opry emphasized instrumental performers, but that changed when Mr. Acuff and his vocal group came on the scene in 1938.

lions of dollars for a theater to house a radio show that was broadcast only two nights a week," he says.

"That led us to consider the possibility of creating areas around a theater that would help defray the costs. The logical answer was a theme park."

Even better than expected

When Opryland opened its gates in 1972, nearly 1.5 million people visited the complex, 21 percent ahead of even the most optimistic estimates, and revenues reached \$11.7 million. During 1976, the Opryland complex had a payroll of \$10.2 million and revenues of more than \$30.3 million.

At the new Opry House, attendance the first year jumped almost 60 percent, and the number of conventions that were booked in advance of the opening of Opryland Hotel surpassed anything its size in the United States.

Another dimension of country music's economic impact is tourism. The main attraction is Opryland, but Nashville's overall image as Music City, USA, is what attracts visitors and their dollars.

In a recent survey conducted for the Nashville Chamber of Commerce by Shockley Research, Inc., the majority of people interviewed in different parts

of the country cited Opryland, the Grand Ole Opry, and the city's reputation as a music capital as the three major reasons for visiting Nashville. Another plus factor is that Nashville is one of only seven cities in the country served by six interstate highways.

In 1977, more than seven million tourists, excluding conventioneers, spent about \$170 million in the Nashville area, according to the chamber of commerce.

In 1978, conventions were up by about 65 percent. About 84,000 people attended 280 conventions and spent more than \$12 million.

Tourist fascination with country music, the Grand Ole Opry, and Opryland indirectly impact on the region's shops, restaurants, theaters, and other businesses.

According to a fairly recent economic analysis, for every \$4 of income generated in activities directly serving tourism in the Tennessee economy—lodging, transportation, and food services, as examples—another \$3 are generated in indirectly related activities such as agriculture or real estate.

During 1975, travelers in Tennessee spent \$1.1 billion. Of this total, about \$222 million was spent in commercial lodging places. Restaurant sales were

\$267 million, and recreational expenditures accounted for about \$10 million.

Moreover, the \$1.1 billion spent by travelers in Tennessee is recirculated among other businesses to generate payrolls, tax revenues, and markets for goods and services. In 1975, for instance, 41.7 percent of every dollar spent by travelers was received as income by someone in Tennessee.

The occupancy rate for Nashville hotels and motels is consistently higher than that of the nation as a whole. Depending on the size of the facility, tourists comprise 45 to 61 percent of the hotel and motel business in the city.

Total profits unknown

How much of this business volume can be attributed to country music?

Any published figure is still only guesswork.

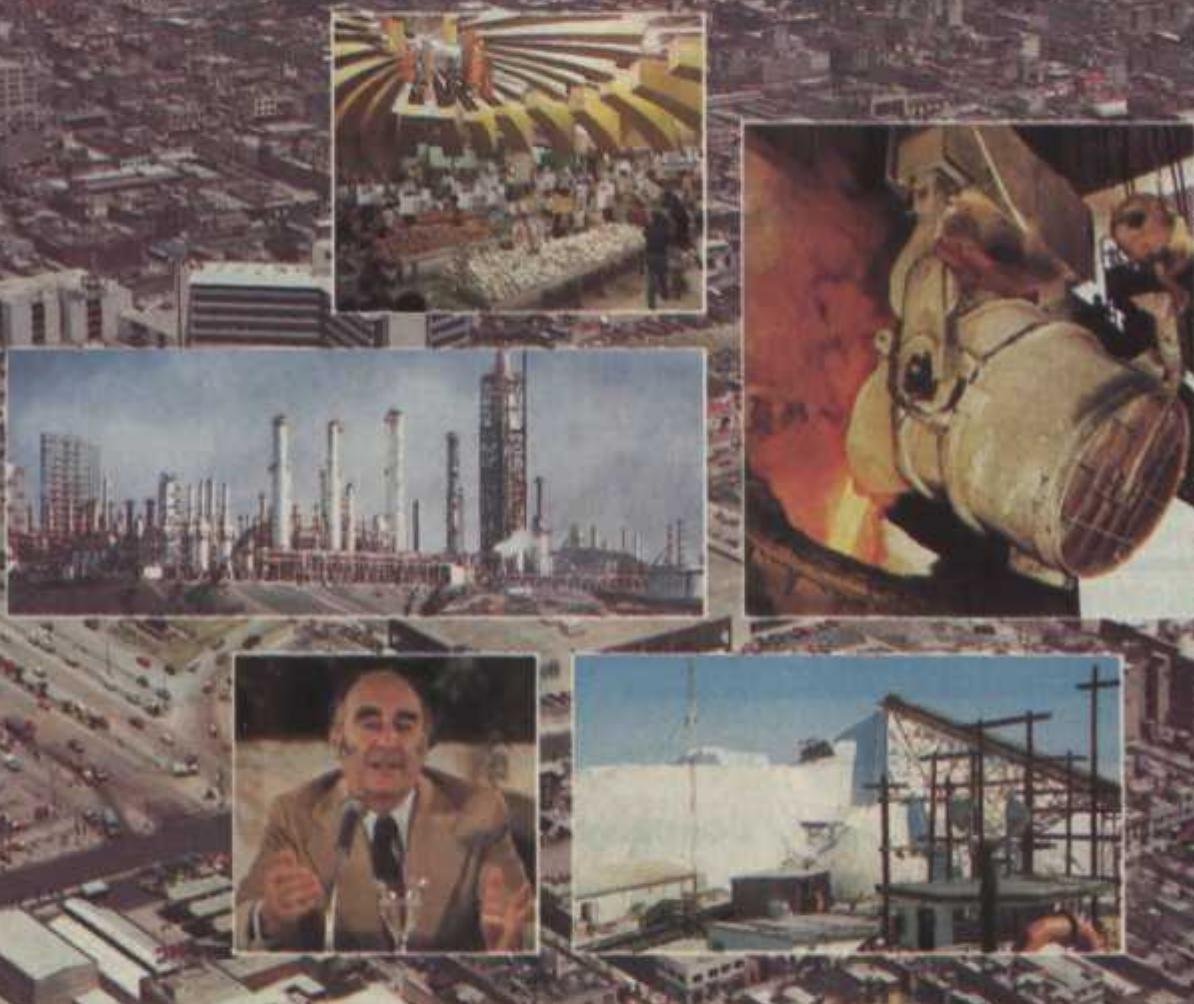
"We're dealing with an intangible product—creative works," says Frances W. Preston, vice president of BMI, a performing rights agency. "Furthermore, the music business is very competitive, so no one is going to tell you his bottom line. Let's just say it involves a whole lot of money."

There is no need to convince the

continued on page 49

MEXICO'S ECONOMIC RECOVERY

SPECIAL FEATURE



JOSE LOPEZ PORTILLO — A SCHOLAR TAKES OVER

President Jose Lopez Portillo, a master of the politics of conciliation, is being credited with transforming Mexico politically and economically in the past two years.

But the President himself takes a more subdued tone. His main achievement in his first year in office, he says, was holding the country and its institutions together. In his second year, he feels, the progress made in developing Mexico's oil reserves has been a major step forward.

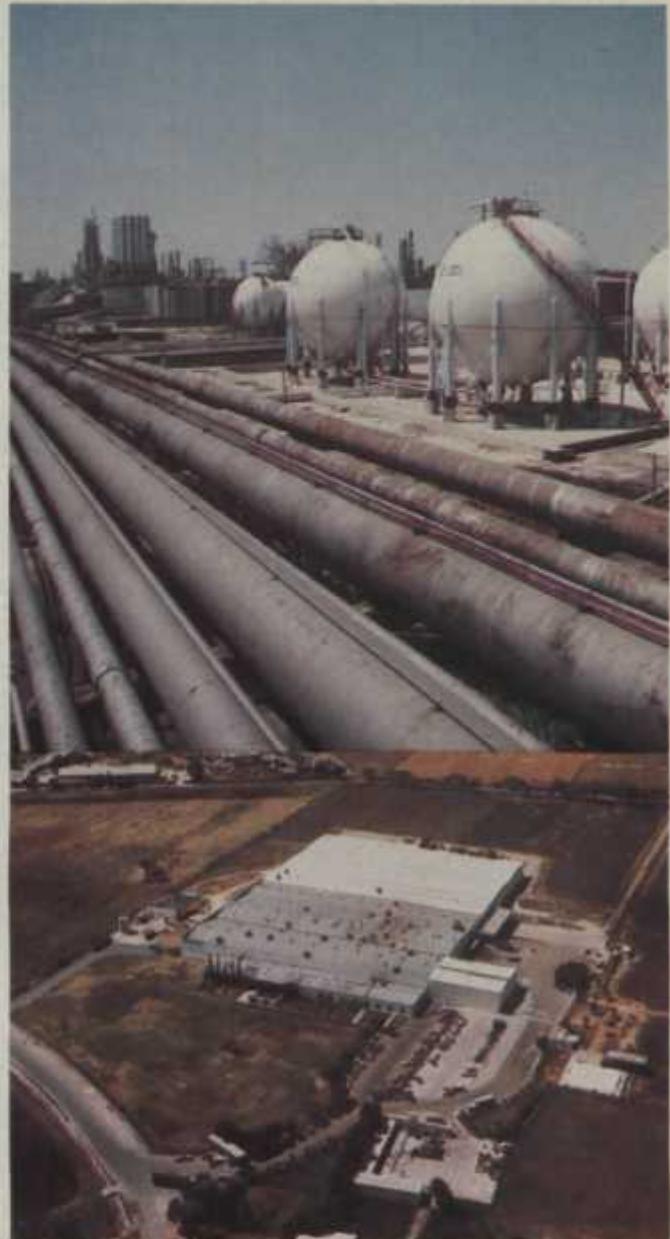
"In just a few months, our reserves have changed incredibly," he said in an interview. "And since the oil belongs to the state,

the possibilities for action seem to me extraordinary."

President Lopez Portillo, 58, is an attorney, author, and academic. He has practiced and taught law, published books, and has been in public service since 1962. As finance minister for former President Luis Echeverria Alvarez, he knew what he was getting into when he assumed the presidency in December, 1976, four months after a shattering devaluation of the peso.

"At the beginning of my administration, we set reform goals: political, administrative, and fiscal reform," he explains. "All (continued on page 3M)

MEXICO'S RECOVERY



INTRODUCTION

Constitutional President Jose Lopez Portillo took office December 1, 1976, while Mexico's national economy was enduring a difficult crisis. The severity of Mexico's 1976 crisis was compounded by a notable lack of both confidence and investment by the private sector as well as by historic devaluations of Mexico's national currency.

Today, 26 months later, the rapid and impressive recovery of our neighbor's economy—under the pragmatic leadership of the Lopez Portillo administration—justifies this publication of a Special Feature. The editorial material in this Feature was prepared by Robert S. Benjamin and Robert S. Prescott, veteran Latin American-based magazine and newspaper correspondents. Also, note the personalized commentaries about today's Mexico written and sponsored by 23 leaders of Mexico's private sector.



Jorge Sanchez-DeVanny
Chairman of the Board
AMERICAN CHAMBER
OF COMMERCE
OF MEXICO, A.C.

Mexico: A Challenging Opportunity

The challenges and opportunities present in today's Mexico make it an exciting place to do business. The development process involves far more than taking full advantage of Mexico's energy bonanza. It has broad social dimensions, with top priority going to the task of absorbing the nation's masses into the mainstream of economic progress.

Under Mexico's system of mixed economy, the dynamic private sector has a pivotal role to play in creating job opportunities and accelerating Mexico's integration with the world economic community.

Mexico has established pragmatic and flexible guidelines to enable foreign investment to share the nation's opportunities and contribute to the solution of its pressing social and economic problems. Foreign

capital has always found Mexico rich in human and material endowments receptive to technology and training. And today it finds, under President Jose Lopez Portillo's administration, a government that recognizes the complementary role that private foreign investment can play in speeding the pace of development.

For more than 61 years, the **AMERICAN CHAMBER OF COMMERCE OF MEXICO** has given undeviating service to the concept of expanding Mexico-U.S. trade and productive foreign investment. More than ever before, today's Mexico offers an appealing combination of stability and economic growth for investors who identify their corporate goals with the nation's development priorities.

President's Interview

(continued from page 1M)

within the context of an Alliance for Production, which is the core of any economic progress in Mexico."

The Alliance for Production urged all sectors, especially business, labor, and government, to work with each other in recovery efforts. Importantly, the alliance ended the war of words and the bitter controversy between the Echeverria Alvarez administration and the Mexican private sector. This has been credited with helping restore confidence, both in Mexico and abroad.

Agricultural production was another priority of his administration, but "I found that management of agricultural production is much more complex than energy management," he says. "Because, while the state can guide, induce, encourage, provide, it cannot produce. The farmer produces—from the most sophisticated to the most primitive, passing through the whole gamut of social and legal situations and positions, making it very difficult to structure."

The President has also dedicated a considerable amount of time and energy to political reform, his favorite area. "Next year, we will hold elections under a new electoral system," he says.



Broadening Mexico's political base, President Lopez Portillo's 1977 political reform bill opened the ballot to several small parties, including the Communist Party, whose efforts previously had been smothered by the huge PRI (Institutional Revolutionary Party) which has dominated politics since 1929.

Other reforms initiated by the President were in finance, administration, and economic policy.

"Fiscal reform is permanent and each year we initiate a few changes," he points out.

In assessing his two years in office, the President could look back on "some irregular performance, some sensational results, others moderate, and in some areas, failure."

"But, like everything else, it is a problem of willingness. We will continue pushing our reforms, seeking to achieve our objectives to push the country forward and place it in a position to become, in the next century, the country we all want."

The Mexican head of state had a distinguished career in academia before public service. He taught law at the National University from 1947 to 1958.

In 1961 and 1963, he also taught at the National Polytechnical Institute's school of business administration. He is the author of textbooks that are still used at the National University. He has published four books.

The President's most significant achievement, he emphasizes, was to carry the country through a crisis of confidence following the August, 1976, devaluation of the Mexican peso.

"That is now all behind us," he says. "The future is now the country that our ancestors dreamed of."

Highlights from exclusive interview with President Jose Lopez Portillo:

What will be the range of discussions you will have with President Carter during his visit to Mexico in February?

The subjects of the visit are the classic ones, the ones which are most obligatory, which occur in a reality totally different from the meeting two years ago. Two years ago, Mexico was in a full crisis. Now it is coming out of it. Two years ago, Mexico's petroleum future was uncertain. Now it is a reality. We now have something which substantially interests the world. This is a new game. The problems are the same. For Mexico: monetary problems, financial problems, commercial problems. For the United States: migratory problems and drug traffic. The counterpart in Mexico is contraband. In all, everything is connected which we continue to think of dealing with as a package.

What major problems does Mexico face in planning its economic future?

The next two years are years of consolidation in which there is (continued)



Gunther H. Muller
President
ALFA ELECTRONICA

The Country of the 80's . . .

Pursuing one of the most pragmatic leaderships Mexico has ever seen, President Jose Lopez Portillo, after scarcely two years in office, is accomplishing a dramatic turn-around of the country's economy. If one recalls where Mexico was heading after the unprecedented devaluation of 1976, the country's recovery is certainly one of the most spectacular in recent economic history.

Underlying such resurgence is the creation of a climate of trust and confidence, permitting the necessary trade-offs to be worked out for the achievement of social justice within a framework of freedom, as well as a clear recognition of the private sector's unique role in the attainment of the country's economic and social goals.

Job creation needs for the immediate future require a high growth rate for the Mexican economy to be attained within the dictates of rational monetary policies to avoid runaway inflation. Such a high growth rate, in view of the limitation of internal savings, only can be sustained through substantial foreign investments in a wide spectrum of economic activities. The conditions for such participation are given: Political maturity proven beyond doubt after the devaluation crisis, free convertibility, liberal investment laws, a growing managerial class, a productive labor force, and an improving economy . . . all of which will make Mexico "The Country of the 80's."

MEXICO'S RECOVERY

President's Interview (continued)

risk of falling back if we are careless. We have to resolve a series of bottlenecks which became obvious when the economy was reactivated, which had not been apparent before. Mainly transportation. The reactivation of the economy brought about a transportation deficiency which is impeding the flow of goods and services. There are seven or eight bottlenecks which we have to resolve in the next two years during which we must consolidate our economy and prepare the stage for the last years of the Lopez Portillo administration.

How closely is Mexico's future dependent upon petroleum?

Oil signifies for us, for the first time in our history, the possibility of trade surpluses. This entails what I define as financial self-determination. Fortunately, this oil boom reaches us at a time when we have the human resources and a stable and organized market. We can take advantage of all the possibilities for our economy revolving around the pivot which is petroleum, with the idea of harvesting our oil, converting it from a non-renewable resource to a renewable one. We have enough time to develop projects to increase employment, taking advantage of our other natural resources and the possibility of fighting extreme misery. For that reason we have a firm belief that Mexico will have resolved its unemployment problem by the end of the century. It must not be believed that petroleum is the only factor which will generate action, but is only one of the central elements which will bring financial self-determination, foreign exchange, and consequently the possibility of importing without deficit what our economy requires for development. In sum, this is what we expect from our petroleum.

Where does Mexico want U. S. investment?

We are interested in foreign investment in all those sectors of

the economy that require technology and foreign markets, with adequate financing. Everything that enables us to take advantage of our raw materials and concur with an objective of this administration to try to improve what we call "stabilizing development" through two means: First, direct our efforts toward our internal markets, looking to develop levels of consumption to match supply. The mass of people do not have an adequate supply of goods. And, second, in order to export, we must bring our industry costs down, fundamentally those of transportation.

What are the prospects for the sale of natural gas to the United States?

The large volume of natural gas which had been destined for sale to the United States, when the agreement was nullified, now has been allocated for our own domestic use. Therefore, there no longer are large surpluses of gas. Thus any possible sale to the United States will be made on the basis of increasing our production. We will have to think about this in regard to our capacity to take advantage of foreign exchange, because we can shake our economy if we sell in excess. We now plan to use in Mexico the gas that we had intended to send to the United States.

As you recall, we had begun the construction of a gas pipeline to the United States. They told us: No! So we said, "Well, what do we do with this pipeline?" Well, we are going to use it in Mexico. And there it is almost finished. Instead of reaching San Fernando, on the border, it will go to Monterrey. And if later there is any surplus, we can sell it to the United States. But the great volume, which was going to solve a problem, unfortunately we could not reach an agreement.

Can this problem be solved?

We are natural customers, intimate neighbors, and our logical interchange is with each other. The absurd thing is that we do not understand each other. If we had only a casual relationship, if we were a great distance apart, but we are close together with 3,000 kilometers of border. The easiest thing is to sell to each other in a just and balanced manner, and with mutual respect. The natural customer of Mexico is the United States, and the natural customer of the United States is Mexico. We have to find formulas. The most absurd thing is not to find them. •



Jeronimo Arango Arias
Chairman of the Board
AURERA, S.A.

National Retail Leadership . . . Its Four Essentials

Twenty years ago, Aurrera, S.A. was the first company to open a discount store featuring softgoods and non-food merchandise.

Today, as one of the largest private enterprises in Mexico, Aurrera has 82 modern retail establishments serving 5.5 million customers per month. The Aurrera organization is structured into three divisions employing 12,000 people:

- 1 **Aurrera Discount Stores**—46 department and food stores serving four million customers monthly.
- 2 **VIPS Restaurants**—31 modern, chain-style restaurants which are always open and serve 1.2 million customers each month.
- 3 **Suburbia Department Stores**—five junior department stores serving 200,000 fashion-oriented customers monthly.

Mexico's recovering economy is reflected in the annual sales growth of the Aurrera organization: 1976—5.3 billion pesos, 1977—7.4 billion, and 1978—10 billion.

Aurrera's national leadership position is made possible by four essentials:

- 1 **Responsive consumers**—a consumer market which responds to technological innovations that result in improved services and price advantages.
- 2 **Expanding market**—one of the largest international growth rates and fastest-expanding markets in the Free World.
- 3 **Responsible labor force**—the Aurrera organization has not lost a single working day in its 20-year history.
- 4 **Political stability and social tranquility**—this environment for expansion has been achieved through an institutional government that promotes the economic growth of the country employing the enormous natural resources of Mexico for the benefit of all citizens.

We foresee a bright economic future in Mexico as evidenced by the above realities and the influx of revenue from petroleum exports.

As Mexico realizes its vast potential, creating employment that increases the purchasing power of our consumer markets, Aurrera is prepared to meet this challenge, as we enter our third decade.

MEXICO— A PROFILE

Mexico, with 65 million people, is the 11th most populous country in the world. Only Brazil outranks it in Latin America. Mexico is larger than any country in Western Europe.

It covers 761,600 square miles in a cone-shaped area—about one fifth the size of the United States. Sharing a 1,900 mile border with the United States, Mexico is bounded by the Pacific Ocean, the Gulf of Mexico and the Caribbean Sea, and by Guatemala and Belize (British Honduras) on the south.

Between the two Sierra Madres is a high plateau, ranging up to 8,000 feet in elevation. Mexico City, a fast-growing metropolis of 9 million inhabitants, is located almost in the geographic center of the country at an altitude of 7,300 feet. Guadalajara, with 1.9 million inhabitants, and Monterrey, with 1.75 million, are the country's next largest cities.

Mexico is regarded as land-poor, since most of its area is mountainous or arid and only about 15 percent is arable. Agriculture also requires extensive irrigation. However, Mexico is rich in forests and mineral resources.

The great majority of the population is of mixed Spanish and Indian descent and speaks Spanish. About 96 percent of the population is Roman Catholic. •



Arturo Maillard Y.G.
Country Manager
AVIS DE MEXICO,
S.A. de C.V.

"Growth and Confidence"—The Avis de Mexico Story

Avis Rent A Car, a subsidiary of Norton Simon, Inc., established its first corporate overseas operations in Mexico during 1962. Today, Avis de Mexico has expanded to encompass most of the Mexican Republic. In this country, our company has increased its paid capital stock by as much as 35 times its initial investment.

The political stability and solid economic growth of Mexico have provided the environment for our continuous development, despite a recession that is being overcome by what we consider to be a trustworthy and capable government. There is a more active business climate that demands extensive air

travel which in turn generates more car rental business.

Rapid tourism development, backed by large public investments, has further contributed to the expansion of both the national economy and our own activities.

Mexican nationals, operating under franchise, have also shared in Avis' growth and confidence.

Now, after 16 years, Avis stands ready to face the challenges of its bright future.

OPTIMISM—THE WORD OF THE DAY IN MEXICO

They call it South of the Border, but that image of Mexico is as outmoded as the idea of *mañana*.

Obviously, there is a border. There are 1,900 miles of open, undefended frontier running from California to Texas, marred in one or two places by stretches of storm fence intended rather hopelessly to slow the flood of illegal migrants into the United States.

But the concept of a border raising a barrier between two countries is gradually being replaced by a term out of the modern world of computers: Interface. Between Mexico and the United States there is a growing interface of vast economic, sociological, and political significance.

Look at what is happening. Economically, the United States is Mexico's best customer, and Mexico is certainly one of the biggest, fastest growing markets for U. S. products.

Ties becoming closer

Sociologically, the ties are equally close, and becoming closer. The southwestern United States shows its Mexican heritage everywhere and is moving toward a bilingual society. Not only do Texas, New Mexico, Arizona, and California have large numbers of Spanish-speaking Americans, but also the bulk of an estimated 12 million illegal migrants who live and work in those states. Mexican culture—architecture, music, and food—is an integral part of the Southwestern scene.

In other parts of the United States, Americans are becoming at least subliminally aware of Mexico in many ways. But, as one U. S. executive puts it: "There is growing awareness. However, most Americans are not yet sure what they should be aware of."

And in Mexico? American influence is not always welcomed by nationalistic elements. In the business world, American systems and style prevail. English is commonly spoken along with Spanish in many offices and stores.

Mexican children now celebrate such typical American holidays as Halloween, along with their own traditional fiestas.

(continued)

Mexico: At the Threshold of Her Vast Potential



Mexico is at a point in its history when the economy of the country will begin to grow at a very accelerated rate. The principal basis for the dynamic economic development of the nation is its petroleum and natural gas reserves which are among the largest in the world.

Mexico has carefully planned the construction of huge numbers of refineries and industries which will produce by-products derived from oil and gas. In addition, the country has structured the development of a petrochemical industry which will produce a vast number of diversified products. In order to construct and equip these refineries and petrochemical installations, Mexico must have instruments and equipment from a highly developed technology, in addition to that which already exists in the country.

For the manufacturers of such heavy equipment and high technological instruments for use in Mexico, there will exist opportunities to export their products to other countries. Simultaneously foreign investors have a large and varied number of investment possibilities in Mexico. The Mexican investment laws are very clear and easily understood.

The 50-year political stability of Mexico guarantees that investments in our country will be protected, encouraged, and respected.

Burton E. Grossman
Chairman of the Board
BANCO CONTINENTAL, S.A.

Optimism (continued)

Mexicans eat in fast-food restaurants just like many Americans, go to foreign movies and even watch U. S. programs on television. Television is a great cultural catalyst in Mexico. Many Mexicans follow U. S. college and pro football broadcasts faithfully and watch "The Muppets," and "Charlie's Angels," among many programs from abroad.

American partnerships

This superficial evidence of a growing community of interest between the peoples of the two countries is supported by American commercial and industrial involvement in Mexico's development. Hundreds of American products, ranging from automobiles to television sets to razor blades and to breakfast food, are made in Mexico from U. S. technology, often in partnership with Mexican capital and management. Some are exported throughout the world from Mexico.

MEXICO'S URBAN MINIMUM WAGE

| | OCT. | | JAN. | | SEPT. | | JAN. | |
|------------------------------------|------|--|------|--|-------|--|------|--|
| 90 (in pesos per day) | | | | | | | | |
| 60 | | | | | | | | |
| 30 | | | | | | | | |
| 1970 1972 1973 1974 1976 1977 1978 | | | | | | | | |

Note: Figures based on simple geometric average of the urban minimum wage in Mexico's economic zones, as established by the National Minimum Wage Commission.

American banks have a big stake in Mexico's economy. They have provided the financing for industrialization, agriculture, construction, and Mexican foreign trade operations.

Mexico's infrastructure of dams, hydroelectric projects, power plants and networks, nuclear plants, coal, steel, mining, petrochemicals, pipelines, railroads, highways, and other urgent needs is being built partly with U. S. technology and capital. And American and other foreign investors now are warmly welcomed as long as they complement the existing economy without displacing Mexican capital.

The American business community in Mexico, in fact, is the largest to be found in any foreign land. Some 3,179 businesses of U. S. origin and some 34,000 American citizens live and work within the country.

How has this remarkable working partnership come about?

Not too long ago, many Americans thought of Mexico as a country where *marijuana* was king. Where the carefree natives lazed away the day in the shade of a tall cactus. Where industry consisted of making cheap pottery handicrafts for tourists and export. Where thousands of tourists coming for inexpensive vacations in Acapulco and other spas shunned the water and raw food. And where the Mexican harbored a smoldering resentment against his rich neighbor to the north.

A bustling country

If any of this was ever true, it is no longer. Mexico is a bustling, industrious country that is getting closer every day to the ranks of the more developed nations.

Indeed, Mexico has been undergoing a dramatic transformation over the past three decades, gathering momentum since the mid-1950s when a policy of financial and political stability, rare in the Third World, began to stimulate investment and industrialization.

This doesn't mean Mexico is becoming a U. S. satellite. Mexico has been remarkable in its long-time resistance to Americanization and for its determination to cling to its own culture and values. But as Mexico begins to solve its tremendous economic and social problems, it is coming out from the

shadow of the colossus of the north. Even though nationalistic attitudes remain, Mexicans are becoming more pragmatic about their interface with the United States. Mexico has long felt it was the junior partner, but has been speaking up more firmly as the potential of its oil bonanza becomes more evident.

New tensions

Among recent problems carried to top levels in inter-governmental talks: the U. S. actions to restrain illegal immigration and the U. S. Energy Department's resistance to a natural gas contract signed with U. S. distributing companies, which halted Mexico's plans to extend its pipeline to the border.

President Carter, alarmed by these tensions, has undertaken a policy review in connection with his trip this month to Mexico which may bring about what he called "closer working relationships... in a broad range of things."

As this give-and-take continues to define and perhaps strengthen the Mexican-American connection, Mexico still must overcome severe internal handicaps.

Like many developing nations, Mexico has millions of ill-clothed, unlettered and disadvantaged. Explosive population growth threatens to double the country's 65 million inhabitants by the end of the century. Around the year 2000, Mexico City will be the world's largest city with a projected 24 million people crammed into the 7,300-foot high metropolis, which already is regarded as one of the world's most congested and smoggiest.

With this growth goes shattering unemployment. Nearly half of the nation's working population has no regular job. Only part of the 800,000 new job-seekers coming of age each year can find employment. Perhaps as many as 500,000 annually join the ranks of the unemployed. Much of the surplus spills across the border as illegal immigrants into the United States.

Political and economic zigzagging

Faced with these overwhelming problems, Mexico has zigged and zagged in its political and economic trajectory. Little more than two years ago, relationships between government and the private sector were at low ebb. Many businessmen felt the country was swinging left. Undercurrents of agitation rippled through the economy. The future of foreign investment and even of private enterprise was brought into question. And a disastrous devaluation of the peso near the end of 1976 suddenly eroded investor confidence within Mexico and around the world.



The outcome might have been a crushing depression, acutely aggravating the problems that brought it about. The country, indeed, faltered. But, surprising to many, Mexico rallied. In just two years, the Mexican recovery from that dismal winter of 1976 has been heady news for both countries. A new president, Jose Lopez Portillo, took office under the slogan: "The solution is all of us."

Slowly it became apparent that another zig in the Mexican political zigzag was taking place. Economic policies settled down in the middle-of-the-road groove. The fluctuating peso steadied. Confidence stiffened, and the turgid flow of investment began to move more swiftly. •

Strong Leadership,
Competent Manpower,
Vast Natural Resources—
Keys to Mexico's Prosperity



After 25 years of success in the Republic of Mexico, the *BANK of AMERICA* is convinced that today's Mexico offers many attractive business opportunities for foreign investors in an environment which features strong national leadership and a competent managerial and labor class. This conviction is evidenced by our highly diversified and successful portfolio.

It is no secret that the premise of our conviction is the strong leadership demonstrated by President Jose Lopez Portillo. President Lopez Portillo's pragmatic leadership during the last two years of economic recovery—supplemented by the development of Mexico's oil, gas, and uranium resources—has engendered confidence and optimism among national and foreign businessmen.

Of similar importance is Mexico's abundance of developed manpower. During brief periods of difficulty, Mexico's responsible entrepreneurs and managerial class have honored and responded to their national and labor obligations. These experienced managers, supported by a large reservoir of advanced technicians in the private sector, are complemented by experienced technocrats in the institutionalized public sector.

It is also no secret that other developing nations lack the leadership and talented manpower necessary to successfully direct and administer the unraveling of their mineral resources. Mexico obviously, does not suffer such a lack of talent.

You are respectfully invited to explore the opportunities offered by today's Mexico.

Jose Carral E.
Senior Vice President
BANK of AMERICA

MEXICO'S RECOVERY

RECESSION, RECOVERY AND RECONSTRUCTION

Mexico has been in an economic squeeze ever since Hernández Cortes arrived on horseback in 1519 to loot the Aztec Empire. Three centuries as a Spanish colony saw billions of dollars of silver, gold, and other resources stream across the Atlantic with no appreciable return to the Mexican economy.

Independence from Spain in 1810, the Empire of Maximilian in the 1860s, the strong-man rule of Porfirio Diaz from 1877 to 1911, and the 1910 revolution that created modern Mexico saw the country zigzagging politically and economically without relieving the terrible pressure on the Indians, *mestizos*, and other disadvantaged at the lower end of the socio-economic ladder. Even land redistribution, beginning in 1917, and the nationalization of oil by President Lazaro Cárdenas in 1938 tended more to reinforce the growth of the economy at the upper levels, rather than the lower.

Only in the late 1940s, when President Miguel Aleman began to industrialize Mexico in an atmosphere of financial responsibility and stability, did the semifeudal growth pattern begin to change. A strong middle class emerged and a consumer economy appeared. Private domestic and foreign investment mounted, and consumer industry began to crowd into the mile-and-a-half high Valley of Mexico. Between 1958 and 1973, Mexico achieved a real gross domestic product growth rate of between six and eight percent, and the signs of affluence were all around. But the basic problem remained unchanged—Mexico's poor. More than half of all family income in Mexico was concentrated in the top ten percent of the population. Those on the bottom rung—half of the population—shared in only 15 percent of the income.

New course needed

By the time Luis Echeverría became President in December,

1970, the need for a new course of action was evident. Despite the prosperity at the top, the Mexican development model had created a profitable but inefficient consumer industry, unable to compete with foreign imports, which were therefore barred or restricted, and equally unable to export. Agriculture likewise was inefficient and food production, even in traditional staples like corn, often did not meet domestic needs. In addition, a stagnated tax system, ineffective trade unions, and sweeping underemployment complicated development plans.

Mexico had become a classic dual economy with a large segment of the population living in poverty alongside a modern sector that was small in numbers, but wealthy and powerful as in few other countries in the world.

President Luis Echeverría, a populist by inclination, attacked the problem with a massive increase in public expenditure.



Attacks on business

Paralleling the government spending program, the private sector came under fire from President Luis Echeverría. Sharp attacks on business left private enterprise dismayed and uncertain about the future. Even as Mexico's gross domestic product growth rate was rising to a high of 7.6 percent in 1973, spurred by huge public outlays, private sector investment faltered badly.

When the world recession set in after 1973, President Echeverría found tax increases could not raise enough revenue to pay for the continuing public sector deficits. The answer: Government printing presses turned out billions of pesos, and there was heavy international borrowing. As a result, many wealthier Mexicans began transferring their pesos into hard currency abroad, and investment tightened even more.

Mexico had kept the peso firmly pegged to the dollar since 1954, when the country began its bid for financial respectability and foreign investment capital. It had never resorted to foreign

(continued on page 12M)



Pedro Cerisola
Executive Vice-President
BANCO NACIONAL
DE MEXICO, S.A.

Mexico and Banamex: Toward the Same Goals

During the last 94 years, Banco Nacional de Mexico (Banamex) has been moving, with our country, towards the attainment of compatible goals.

Always one of Mexico's leading banks, today's Banamex has a nationwide network of 500 branches and 18,000 employees. We have gained valuable experience along the way and now, on the threshold of the '80's, we look forward with optimism to very favorable conditions and results in Mexico.

Mexicans are united in their efforts to challenge the problems typical of developing countries, and are strongly behind the present administration which has won the full support of all sectors.

Over the last two years, the economy has gained new momentum; the G.N.P. has

shown significant increases; petroleum reserves (including actual and potential) are now estimated to be the 2nd largest in the world. Additionally, Mexico is endowed with an impressive wealth of minerals, sufficient energy resources and an abundant labor force. The dynamic growth of financial resources channeled through the banking system has been a notable feature of the current economic upswing and the outlook for future growth is encouraging.

Mexico is now a nation undergoing unprecedented development which offers a vast range of opportunities to the businessman as well as to national and foreign investors.

Why Mexico?

Economic Difficulties Overcome

by Minister David Ibarra Muñoz
Secretary of Finance and Public Credit

A Review and Outlook of Mexico's Economic Progress

Economic growth in Mexico during 1978 exceeded government forecasts while important advances were made in controlling inflationary pressures. Finance Secretary David Ibarra Muñoz told Congress as the 1979 federal expenditures budget was presented and explained at the end of 1978.

Budgeted spending in 1979 will surpass a trillion pesos for the first time in the country's history, with an outlay of 1,124,269,000,000 pesos contemplated. (The total is equivalent to about 49.5 billion dollars.) The figure is up 19.8 percent from the 1978 budget. Of the total for 1979, 571,701,000,000 pesos are allocated to direct federal government spending and 552,568,000,000 pesos will be for government-owned agencies and businesses. The former represents a 21.4 percent increase while the latter figure is up 18.1 percent over the budgeted amount for last year.

Among highlights of Secretary Ibarra Muñoz' presentation were these:

Growth of the economy

The goal for growth in Gross Domestic Product, set at five percent, certainly was surpassed. The country's growth in GDP, it is expected, will have been nearly six percent for 1978, almost double the figure shown in 1977.

Prices will have shown a rise of under 17 percent. This is one of the questions in which the greatest care must be taken, and where the frank cooperation of workers and businessmen and entrepreneurs is most needed.

As a result of economic growth, unemployment levels have begun to fall. An indicator reflecting this situation is shown by the employment level in the manufacturing sector, which was up 3.4 percent for the first three quarters of 1978.

The battle against unemployment and underemployment, which keep important contingents of the labor force outside the market economy and the majority of social welfare systems, is still far from being completely won. Nevertheless, growth in domestic product has brought about an increase in the levels of employment jointly with important programs of construction, housing, energy source and agricultural development, among others.



Increases in gross domestic product and in employment have been a result of the stimulus coming from additional demand. Outstanding in this is the substantial recovery in the rate of private capital outlays, the increase in public spending and the impact of foreign demand.

Fulfillment of the private sector's commitments within the framework of the Alliance for Production brought a notable increase in private capital outlays, as demonstrated in the 26 percent increase from January through September of purchases abroad of capital goods.

Favorable advances were seen in the financial system with a considerable increase in the intake of savings from the public accompanied by rapid granting of loans and credit lines. Thus a very important achievement is found in a mixed economy system: the concurrence of private initiative and the government to complement and accelerate the basic process of capital formation.

Public spending contributed by orienting and supporting economic activity by attending to priority programs of food production and energy source strategy. At the same time, support was maintained for development of understructure and the carrying out of basic social programs.

Exports

As of last September, exports had undergone an increase of almost 26 percent over nine months of the previous year. Contributing to this were sales of petroleum, which doubled, an increase in sales of manufactured products and an influx of tourism.

Balance of payments

The current account deficit in the balance of payments is estimated to be 2.6 billion dollars for 1978. This is still a lower figure than that of 1976, although it is higher than in 1977. The imbalance is due primarily to the fact that economic recovery requires greater imports of capital goods and intermediate input items. In response, the bases have been established, with the participation of the private sector, for financing projects which demand domestic manufacture of capital goods.

Industrial production

The industrial sector continues to maintain a persistent and high rate of increase in production. The nine first months show an average increase of nine percent in industrial production, a figure comfortably surpassing forecasts a year earlier.

Among the most dynamic areas were petroleum, petrochemicals and electrical power. Equally important advances were made in the construction industry, capital goods manufacturing, and durable goods. The production of perishable items, as is normal, has increased at a lower rate than gross domestic product, while it has nevertheless maintained a generally positive rate of increase.

Inflation

The rate of increase in prices is lessening. An increase of between 16 and 17 percent in prices for all of 1978 is seen.

The process of adjusting prices to costs and certain speculative movements that are very difficult to control have been factors in the increase. Nevertheless significant advances were made as a result of a unified attitude of labor, farm and business organizations in negotiation of wages and prices as well as in achievement of greater efficiency and therefore increases in production.

An effort has been made to protect the purchasing power of workers and low-income sectors of the population through increase in employment, combating price increases, adjustments of salaries and taxes, care in the renewal of labor contracts and the promotion of labor union and cooperative stores.

(continued on page 22M)

MEXICO'S RECOVERY

WETBACKS, POPULATION AND UNEMPLOYMENT

Wetbacks.

This word from the Thirties sounds strangely out of place in the 1979 interface between Mexico and the United States. When population and unemployment pressures first began forcing Mexican *braceros*—laborers—to look for work in the fields of California, Texas and as far north as Michigan, the label wetback was applied because supposedly these migrant workers slipped across the border by swimming the Rio Grande river into Texas.

Today there is no connotation of wetback in the vast stream of illegal migration crossing the border. The undocumented migrants cross almost the entire length of the 1900-mile frontier in trucks or passenger cars, afoot, by airplane and probably even by mule or bicycle. Some 800,000 to one million Mexicans are believed to be entering the United States every year. Only 40 miles of the border are geographically difficult to cross, and the U. S. border patrol lacks manpower and equipment to keep an eye on more than a few hundred miles.

Tortilla curtain

An ill-conceived effort to slow down the crossings led to the controversial "tortilla curtain" decision late last year. Storm fencing was raised or strengthened at border points in El Paso, San Diego, and other cities where there is no geographical barrier such as a river. Mexicans were offended by the move, and when the so-called curtain became an issue at the joint U. S.-Mexico negotiations on illegal immigration, the project was put on hold.

The short-lived measure did, however, drive home to both countries the fact that there are strong emotional connotations, as well as socio-economic implications, to the migration of large numbers of Mexico's unemployed into the American border

states. It also highlighted the difficulty of controlling the flow—a difficulty so great that President Carter proposed an amnesty for pre-1970 undocumented aliens as the best way to solve the problem.

The issue has taken on gigantic proportions with the publication of reports that between eight million and 12 million illegal aliens, most of them Mexicans, are living and working in the United States. U. S. labor unions complain that this has tremendous impact on U. S. employment, because the illegal aliens take jobs from natives and drive down competitive wages in agriculture. The aliens are said to be burdensome on social institutions as well.

Fill a needed role

On the other hand, those who encourage the Mexican migration believe that the illegal migrants fill a needed role in the U. S. economy by doing stoop-type work that American citizens refuse to do. They believe also that the migration figures are inflated. The only firm statistic is that about one million aliens are caught every year by the border patrol. But sometimes the same person is caught, deported, and recaptured several times. Many of the migrants come and go seasonally, just as they did when the *bracero* program was alive. Under this program, more than 400,000 *braceros* annually were allowed into the United States legally to do temporary farm work. The program was ended in 1964 under fire from U. S. labor unions, but the habit of coming and going to earn dollars to supplement family income apparently has become a way of life for many Mexican laborers.

Mexican safety valve

The surge of migrant labor represents a safety valve for Mexico's most serious problem: Population explosion.

In only 38 years, Mexico's population has more than tripled, from 20 million in 1940 to more than 65 million today. The statistical average of more than three percent annual growth is one of the highest rates in the world. During President Lopez Portillo's six-year term, the number of people living in Mexico will rise by more than 14 million. By the year 2000, Mexico may have as many as 120 million inhabitants.

Mexican spokesmen call the migration a force of nature and imply strongly that it should not be opposed because of the close relationship between Mexico and the United States.

Looking for a more positive solution, Mexican planners are studying new investment and development models that will provide more jobs by turning Mexico away from capital-intensive investment toward labor-intensive development. •



CELANESE
MEXICANA, S.A.

"Confidence"—Our Basis for Dynamic Growth

Celanese Mexicana is one of the five largest private companies in Mexico with estimated 1978 sales exceeding 7 billion pesos. Its capital is 60 percent owned by Mexican stockholders and 40 percent by foreigners.

Celanese Mexicana is the leading company in volume and diversification in Mexico's man-made fibres industry as well as in the field of intermediate petrochemicals.

Celanese Mexicana, which was the pioneer of man-made fibres in Mexico, has grown with the country. Today, it is a diversified enterprise undertaking important investment programs which cover the capacity increases in all its current activities, in addition to several new lines of production in intermediate petrochemicals and plastics.

After the peso devaluation, Celanese Mexicana feels confident in the new

economic policies of the Mexican government and the response that the Mexican private sector has demonstrated to it. The six percent growth rate of the Mexican GNP during 1978, the control of inflation, and the oil reserves which provide a base for the raw materials of Celanese Mexicana have determined the confidence that we have in the future of Mexico and of our company.

A Mexican tradition: Foreign trade.



By 1400 the Mexicas were trading as far south as Central America, spanning both coastlines, and shipping goods deep into the North American continent. At the time, the pochtecas, or tradesmen, already were making loans, drawing contracts and traveling long distances. Today, Bancomer continues

the Mexican tradition of foreign trade. With 610 branches throughout México and representative offices and agencies in important financial and trade centers of the world, Bancomer offers a complete range of international and domestic services and expertise in foreign trade and investment.

When trading with México, contact Bancomer.

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London E.C. 3 V-0DY
England

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Shin-Kokusai Bldg.
Room 842 4-1,
Marunouchi,
3-Chome, Chiyoda-Ku
Tokyo 100, Japan.

Madrid
Alcalá 30,
5th, Floor, Room 11,
Madrid 14, Spain

Agency
New York
299 Park Avenue
New York, N.Y. 10017, U.S.A.

International Banking Branch
Los Angeles,
800 Wilshire BD Suite 1080,
Los Angeles, Cal. 90017 U.S.A.



BANCOMER, S.A.

We Are Proud of Being a Part of Mexico's Growth



In 1926, some enterprising and farsighted Mexican businessman decided to introduce the product *Coca-Cola* into Mexico. They have been joined over the years by other such Mexicans, and with the support of the *Coca-Cola Company*, these competent businessmen have built a successful network of independent Mexican-owned franchise bottling plants throughout the republic.

The *Coca-Cola Company* is proud to be associated with this fine group of Mexican businessmen.

We believe that the Mexican government's economic policies continue to offer enormous prospects for investment and afford unique opportunities to grow and diversify. During the last three years, our diversification programs have included: export of Mexican handicrafts; the development of Mexican vanilla plantations; cultivation of a variety of lemon new to Mexico; the experimentation with shrimp farming in northern Mexico; and the development of nutritional protein beverages.

Consequently, our philosophy is to accelerate our growth through the independent Mexican *Coca-Cola* bottlers and to enthusiastically pursue our diversification program because we want to be a true partner in fulfilling our social responsibilities and maximizing our contribution in the economic development of Mexico.

H. T. Circuit
Vice President
THE COCA-COLA EXPORT CORPORATION

Reconstruction (continued from page 8M)

exchange controls, as have so many developing countries coming under inflationary pressures. But when capital flight accelerated in 1976, private sector credit neared the vanishing point. The official Banco de Mexico, with an obviously overvalued peso, was unable to recapture an estimated \$4.5 billion transferred abroad. President Echeverria was able to avoid the imposition of exchange controls, but finally devalued the peso on August 31, 1976.

Devaluation traumatic

The effect of the devaluation was traumatic. Mexico had held the peso at a steady 12.50 to the dollar for 22 years. When this cornerstone of Mexican fiscal policy fell, the initial 60 percent drop in peso value to 19.90 brought the country to a virtual standstill.

The inauguration of Jose Lopez Portillo as President on December 1, 1976, began the turnaround. Lopez Portillo, who was President Luis Echeverria's finance minister and handpicked successor, immediately signaled a return to normalcy.

Remarkable change

President Lopez Portillo's success in reversing an apparently disastrous course of events has brought about a remarkable change in Mexico's investment climate in just two years. From a rock-bottom real growth rate of barely 1.7 percent in 1976, the gross domestic product bounced back to 3.2 percent in President Lopez Portillo's first year in office and to 5.5 percent in 1978.

Inflation is still high in Mexico at 17 percent annually, about double that of the United States, but far below many Latin American countries where rates above 100 percent have been recorded recently. Further, David Ibarra, Mexico's finance minister, calls for a maximum inflation rate of 13 percent in 1979. Many countries, developed and less developed, have higher predictions than Mexico.

Industrial output leads

Increasing industrial output will continue to lead Mexico's growth. In the first nine months of 1978, industrial production was on average nine percent above the previous year's figure. Petroleum was the star performer. As soon as Lopez Portillo took office, he authorized a massive expansion program for Pemex, the state petroleum monopoly.

The steel industry bounced back also. Tonnage rose 4.4 percent in 1977, and a 25 percent increase is expected for 1978, with the industry operating at almost full capacity. Construction showed new signs of life, operating at 90 percent capacity in 1978. Chemicals were expected to double their growth rate to eight percent and the administration targeted electric power as a key growth area, investing some 25 billion pesos (approximately \$1.1 billion U. S.) in 1978 to boost generating capacity of 20 percent.

Production of automobiles, trucks, and tractors is booming, but the industry faces serious problems as the government steps up its requirements for use of domestic parts and for exports.

Dramatic recovery

These favorable factors stimulated a dramatic recovery in Mexico's financial system. Runs on time and savings deposits eased, and the dollarization process was checked following a period of great concern when dollar deposits were rising at a much faster rate than peso transactions. The peso money supply, however, has been increasing at a 30 percent rate, indicating that full confidence in the peso has not yet been restored.

Ambitious goals

The 1979 budget—first step into the two-year recovery—shows no letdown in striving for ambitious goals. The 1979 (continued on page 16M)

The Administration of Mexico's Development

by Minister Ricardo García Sainz
Secretary of Programming and Budget

The Secretariat of Programming and Budget is one of the most recently created Departments in the Mexican Government.

The amendments and additions in force since 1977 gave this Department a series of powers and functions that could be summarized in one, large, single function: more efficient Administration of the development of Mexico.

The legal framework that created this new Secretariat permitted the integration of all programming, budgeting, evaluation and information functions that were distributed among several departments in



Mexico's previous administrative structure; the purpose was to create a single, integrated system, as the basis for decision-making in the economic and social policies set forth by the President.

The Secretariat of Programming and Budget has a normative and globalizing function for the Public Sector; coordinates the functions of the latter to achieve consistency with the two main National purposes: achieve the necessary minimums of welfare for the whole population and strengthen the economic independence of Mexico.

The programming and planning is based on a national information system which makes possible a knowledge of the status of each activity that will be promoted, evaluating the natural resources, identify the areas that offer better possibilities for growth, detect deficiencies in education, food, health and housing; also, quantifying unemployment and knowing the evolution of every productive activity in national economy.

Planning

The decision of orienting Mexico's economy through coordinated planning and programming of public activities allows the Federal Government to more efficiently face the economic and social problems that arise from the modernization of the Nation and the rational exploitation of its resources.

Planning should be construed as a process consequent with the changing

realities of the country, that determines what to do and how to do it. It spans short, medium and long terms and its sphere of action includes the national, intersectoral and regional planning.

The model establishes sectors that classify by type of activity, all the Government agencies and places them under the responsibility of one or more Agencies, named "sector heads".

This programming attempts to provide more order and clarity to the joint decisions of the public sectors.

It also links, in a systematic manner, the formulation of short-range economic and social policies with the budget, in order to better use the existing resources and organization.

Likewise, decisions are made on priority areas to prepare projects that will promote the development, taking into account the effect of Governmental actions upon all sectors.

Planning is mandatory for all Government agencies; agreements have been entered upon with State Governments of the entire Republic of Mexico and also to induce the participation of private enterprise.

A Budgeting Technique

One of the most important changes in Mexican Public Administration has been the implementation of budget systems by programs.

The need for greater efficiency in the allocation of national resources, brought about this budgeting technique, as the basic instrument to schedule actions and justify expenses by results.

In accordance with the Mexican sectorial model, the coordinators for each sector, jointly with the SPP, prepare their own programs and set forth the range or budget limits they require in the assignment resource allocation to carry out these programs.

The budget is thus conceived as a document wherein the economic and political Philosophy is integrated, as foreseen by President José López Portillo.

The Budget for 1979

All the experience and advances gained in the implementation of these techniques have been applied to the new 1979 Federal Budget.

Its structure reflects the priorities of food and energy, preparing the Public Sector to face and solve the problems arising from the current consolidation stage of our economy.

Priority assigned to food production does not, however, mean less attention to

the other goals for public welfare. The 1979 budget is the beginning of a campaign to solve problems in health, education and housing.

Creation of employment sources will also be promoted, to achieve a sizable reduction in unemployment still afflicting a large number of Mexicans and, through a cutback in inflation, it also seeks to prevent the deterioration of purchasing power of Mexico's working classes.

It is, financially, a sound budget, since it will be covered with non-inflationary resources, taken from Federal and State revenue, from internal savings and from the results of the balance of payments.

The amount of investments is increasing sufficiently to generate a dynamic effect in the national economy, without provoking inflation.

It is also expected to eliminate and prevent bottlenecks in the supply of goods and services, especially those of a strategic importance for the operation of the economic system.

Oil Resources

The confirmation of new findings of hydrocarbon reserves, allow us to state that this country has sufficient gas and oil reserves to cover the needs, amply, until the next century.

The growing oil exports contracted by Mexico with other countries will yield income that is intended to be allocated for the improvement of other sectors of our economy and to create employment.

In this regard, several programs have already been drawn for the iron and capital goods industries, the cornerstones for our development. The intention is to select the most suitable technology by promoting imports that will increase productivity.

It is believed indispensable that technology, financing, and capital goods from developed countries flow to Mexico with reasonable costs and conditions.

The agricultural and cattle sector will be the foundation for the existing infrastructure and will be enlarged wherever necessary. Agro-industries will be promoted jointly with the development of small mining and industrial companies, in order to create a surplus of raw and semi-finished materials that, through exports, will show a favorable impact on the balance of payments.

These, in a broad outline, are the functions and concerns of the Secretariat of Programming and Budgeting, programming and budgeting for coordinated National Development under my responsibility. •

MEXICO'S RECOVERY

OIL—MEXICO'S BURIED TREASURE

Mexico, since 1975, has been discovering oil at a pace so swift that reserves have practically doubled each year, a rate President Jose Lopez Portillo describes as sensational.

"Mexico has proven reserves of 20.2 billion barrels, probable reserves of 37 billion barrels, and potential reserves of more than 200 billion barrels of hydrocarbons," the President of Mexico reported to Congress in his second State of the Union report last September.

But a more recent find, estimated at 106 billion barrels, in the Chicontepec basin near the northeastern Mexico oil fields at Tampico, prompted President Lopez Portillo to tell the nation that oil "makes Mexico a totally different country from what it was just two years ago.

"In just a few months our reserves have changed in an incredible manner. We have had to certify and authenticate them. That puts us in a position of oil production that, for the first time in the history of Mexico, permits planning a model for this country well into the next century."

Self-sufficient

What does our oil mean? President Lopez Portillo asked recently. His answer: "We are self-sufficient financially. We no longer need to ask for foreign financing to exploit our natural resources and organize our society."

The bonanza, the President said, "allows us to organize and generate employment from now to the end of the century."

Oil, he says, is the fundamental focal point for industrial development of Mexico.

"Development has to be based on our natural resources and that means oil and other minerals. It has to be oriented to generate employment, has to resolve basic problems of provid-

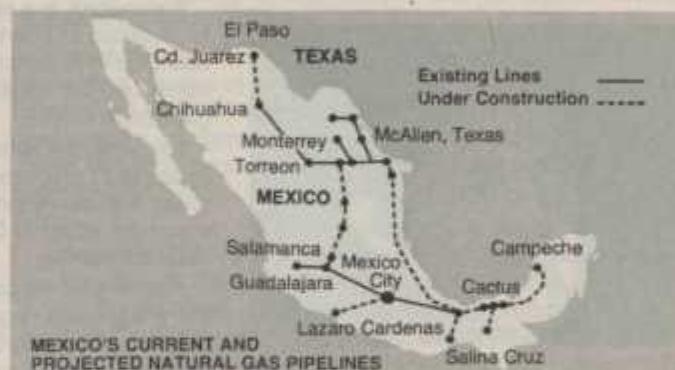
ing low-cost basic goods for a population whose current demands are not presently met by products being offered at a price higher than they can pay."

Mexico nationalized its oil in 1938, the first country in the world to do so. The reserve at that time was 1.24 billion barrels. From nationalization until 1971 the country used all the oil it could produce.

In 1972, the discovery of additional petroleum boosted production to 500,000 barrels a day and by 1976 the figure had risen to 900,000 barrels daily. Production reached 1.5 million barrels daily in December, 1978.

Major discoveries

New discoveries in recent years have been startling. In January, 1976, reserves reached a total of 6.3 billion barrels in total liquid hydrocarbons. By January, 1977, this had almost doubled to 11.2 billion barrels. In June, 1977, the estimate was increased to 14 billion barrels and in September, 1978, the President was able to report the 37 billion barrel reserve figure and venture an estimate of as much as 200 billion barrels.



This was before the Chicontepec discovery.

When President Lopez Portillo took office in December, 1976, he appointed 58-year-old Jorge Diaz Serrano, a long-time friend and successful businessman, to take charge of Petroleos Mexicanos, Pemex.

Mr. Diaz Serrano, who studied business administration in the U.S., has implanted his own brand of aggressive management on what has been Mexico's largest bureaucracy. Extensive new

(continued on page 18M)



Antonio Gonzalez Mendoza
President
FABRICA DE JABON
LA CORONA,
S.A. de C.V.

"Confidence in Mexico . . . Is Our Foundation"

When asked for an opinion about Mexico's current and future economic development, my response stresses the importance of "confidence"—confidence in Mexico's laws; in her institutions, in her government officials and in ourselves—to be demonstrated by those responsible for industrial production, including the productivity of my enterprise, i.e., edible oils, soaps and detergents.

I am pleased to report that such confidence has been re-established in Mexico during the initial two years of the administration of President Jose Lopez Portillo. The crisis following the 1976 peso devaluation has been completely overcome, owing to Mexico's natural and human resources and, of course, to the recovery of confidence.

And while space doesn't allow an analysis based upon economic indexes, surveys, etc., my enterprise is representative of the many

which are continuing to invest and reinvest. Why? Simply because it is both a challenge and our responsibility to produce more and better each time, to overcome any crisis suffered by my country.

I wish to add that the competition between my company and the U.S. firms manufacturing the same lines is a healthy one. A healthy competition for everyone including the Mexican consumers, which is carried out in the best of conditions, because we all respect the laws and their institutional guardians.

Therefore, I believe that the time and climate are appropriate for national and foreign investments, within our juridical-political frame, to obtain a mutually beneficial return for both the investor and my country. The foundation of such multi-beneficial investments is "confidence".

“oportunidades”

something that Mexico can mean to you.

More International businessmen are discovering that Mexico is a land of great opportunities for trade and investment.

Have you made the discovery?

The Mexican Market is indeed a rich field for business. Our country offers a wealth of raw materials, abundant energy sources and a plentiful labor force, a powerful combination for industry. Then a strategic geographic location that facilitates exports to other Latin American countries and to the vital U.S. market. To wrap it all up, Mexico offers significant fiscal and financial incentives and a growing domestic market.

If you're thinking of expanding...

Mexico, with a dynamic expanding economy can be the solution you've been looking for in your own expansion plans.

In Banco Nacional de Mexico (Banamex) you will find a direct line to this wide field of opportunities.

A Mexican bank that knows Mexico

In 94 years we have gained valuable experience in our country. Today, Banamex operates 539 branches in 351 cities and towns throughout Mexico, a service network that guarantees our clients full coverage in doing business.



In growing with Mexico, Banamex has also steadily increased its international facilities. We have offices in Tokyo, New York, Los Angeles, Paris, Madrid, London and an affiliated Bank in California, while through our correspondent banks network we reach virtually every country in the world.

Our International offices can serve as your personal introduction to Mexico, a land of opportunity.

We look forward to serving you.



Banamex
Banco Nacional de México, S.R.

A PRIVATE BANKING INSTITUTION

Time for a Fresh Look at Mexico



Motivated by pragmatic government policies and sparked by a revitalized private sector, plus the discovery of untold petroleum wealth, the Mexican economy is turning around. The recovering economy is reflected in the return to the annual unit percentage sales increases enjoyed by *Gerber Products, S.A. de C.V.* prior to the difficult devaluation period.

In responding to the challenges offered by the recovering economy and the growing middle-class market, *Gerber Products* continues to invest and expand its administrative and manufacturing facilities in Mexico.

This year, *Gerber Products* celebrates its 20th anniversary of producing quality baby food for this rapidly growing market . . . and our confidence in Mexico's future is demonstrated by our ongoing policy of capital investments.

Yes, it's time for many of our colleagues in the United States to take a fresh look at Mexico as this nation moves into its new oil era.

Thomas E. Jones
Vice President and General Manager
GERBER PRODUCTS, S.A. de C.V.

Reconstruction (continued from page 12M)

budget is the largest in Mexico's history, 1.124 trillion pesos, or about \$49.5 billion at current exchange rates.

Treasury Minister Ibarra says the main thrust will be to cut back unemployment and provide needed services to the growing population. Primed by an increase in tax revenue of almost 20 percent, federal outlays will be used to create jobs in public works projects, agriculture, and livestock, and establish in-depth fiscal reforms to govern oil income and create a financial pivot for international business deals. Mr. Ibarra says. Top priorities will go to agriculture, agro-industries, in-bond manufacturing plants, the fishing industry, and irrigation projects.

How will Mexico finance the ever-increasing cost of recovery and reconstruction? Not far in the future, of course, oil export earnings will take care of many needs now covered by deficit financing. President Lopez Portillo, in the meantime, is hiking taxes on upper-level incomes and capital gains. The first ad valorem customs duties are being applied, gradually replacing the import-licensing system. About half of the items on the Mexican tariff schedule have already been exempted from import permit requirements and new duties applied instead. The tariff system is supposed to be entirely restructured by 1982.

Administrative reforms, a euphemism for cleaning up a stagnant and sometimes corrupt bureaucracy, represent another move by President Lopez Portillo on the economic chessboard.



A parallel effort to revitalize foreign trade, foreign investment, and the balance of payments rounds out President Lopez Portillo's recovery program. Mexico's trade deficit improved by 50 percent to \$1.4 billion in 1977, but further improvement is not likely. Devaluation, restricted government expenditure, and reduced domestic demand and production contributed to the improvement. As the economy picks up again, these factors are easing. Despite a counterbalancing rise in petroleum exports to about \$2 billion in 1978, the trade deficit is expected to climb back to about \$2.6 billion in 1979. However, the picture in both foreign trade and investment is optimistic.

Economic crisis over

Mexico's economic crisis is widely considered to be over, in the light of President Lopez Portillo's success in subduing a near-catastrophe.

Both the public and private sectors are planning for a future that includes rapid economic growth, reduced unemployment and underemployment, and the absence of a foreign exchange bottleneck. Oil revenues will fuel the recovery and reconstruction. However, President Lopez Portillo has closely defined the way that oil revenues will be used: For new infrastructure projects that tend to improve the standard of living, for expanding existing infrastructure, and for technical and research projects that spur industrial and rural development.

Within these definitions, Mexico apparently is on the way into a period of solid long-term economic growth and political evolution. As President Lopez Portillo made clear just before his inauguration: "This country is not underdeveloped . . . it is just underadministered." •

CONSTRUCTORA NACIONAL DE CARROS DE FERROCARRIL S.A.



The most modern design and technological capabilities of Constructora Nacional de Carros de Ferrocarril are incorporated in all the units which we are now exporting to clients in the United States. We have the capacity to custom-build freight cars of many different types which meet all standards of quality, safety and interchange as specified by AAR, ICC and DOT. Constructora is ready, willing and able to serve your needs.



Av. San Lorenzo 925, 5o, Piso. • Col. del Valle • México 12, D.F.

MEXICO'S RECOVERY

Oil

(continued from page 14M)

engineering studies, along with greatly intensified exploration throughout the nation, have been responsible for the soaring reserve figures.

New development program

President Lopez Portillo also launched a \$16 billion, six-year development program aimed at increasing daily production to 2.25 million barrels of oil and 4.5 billion cubic feet of natural gas by 1980. Production at these levels would enable Mexico to export 1.1 million barrels of oil and up to two billion cubic feet of gas daily. Thus, 1980 oil export earnings alone could exceed \$5.5 billion (U.S.).

Record oil production of 1.5 million barrels daily in 1978 made potential exports of an average 425,000 barrels daily, but about 400,000 cubic feet of the 2.5 billion cubic feet daily gas production had to be flared off because of inadequate storage and shipping facilities.

Mexico now an exporter

From an importer of petroleum less than ten years ago, Mexico has become an exporter. At the end of 1978, Mexico was exporting a total of 480,000 barrels of crude daily to the United States, Israel, France, Japan, Spain, and other nations.

Mr. Diaz Serrano uses words like immense and enormous in discussing Mexico's industrial development needs from now to the end of the century.

"We require heavy industry products and pipe and an important number of factories to manufacture them and a steel industry oriented toward larger and more sophisticated installation," Mr. Diaz Serrano said recently.

"Industrial development will go on for 20 years, and during this period Mexico will import unprecedented quantities of heavy equipment for its factories and volumes without parallel of finished products as its factories come on stream."

Money for investment

And he said that in the next two decades Mexico will not only be the customer with the resources to pay for these acquisitions,

but also will invest in industrial growth at an unprecedented rate.

"To do it we will have to improve railroads and ports, and build ships and railroad equipment," he said.

Mexico is expanding installations at its port in Salina Cruz to increase capacity for cargo and for oil exports.

To develop Mexico's oil-related industrial base over the next 20 years, Mr. Diaz Serrano will invite Mexican private enterprise to participate as broadly as it can.

"But the projects are gigantic, so if local capital does not come forward or cannot be found for this type of investment, the government's Nacional Financiera and the Bank of Mexico will develop instruments that can be combined with co-investment funds to carry out these projects; they would, in effect, become the missing Mexican partner."

Mr. Diaz Serrano is intensely aware of world interest in Mexican oil. "We have something in great demand in the world. In Japan we are making contracts for Mexico's industrialization that are significantly advantageous, so we have a very good reason to sell to Japan."

Brazil recently signed an agreement with Mexico which will involve a major trade exchange including purchase of petroleum products.



Many buyers

Referring to prospective customers for Mexican oil from all over the world—who are currently beating a path to Mexico's doorstep—the head of Pemex says, "We have visitors from so many countries who want to buy oil. Some are here because they are alarmed at the situation in Iran and the Middle East. They want to buy, starting in 1979."

Then he added: "This situation is difficult for us because we have old clients with whom we have been dealing and we cannot drop one client for another."

One of the most discussed activities of Pemex has been its project for the distribution of its natural gas, now available in

(continued on page 21M)

Ford in Mexico—Production Since 1925

Mexico has successfully recovered from the 1976 devaluation and there is full confidence among private enterprise in the country's economy and the stability of its political system.

Although there are still problems to be solved, vast natural resources, a well developed infrastructure, and a strongly developing industrial base should contribute to important growth opportunities in the next decade. The automotive industry is recovering and its achievements exceed our projections of last year.

Since 1925, Ford Motor Company has provided the best accepted products in the

market, expanded its operations, trained personnel, and contributed to the industrial development of Mexico by providing technical assistance to its 200 national suppliers. The company is at present studying new projects for expansion, integration and export.

L. L. Halstead
General Manager
FORD MOTOR
COMPANY, S.A.

FOREIGN TRADE AND INVESTMENT

The rules of the game are changing in Mexican foreign trade. In keeping with Mexico's role as the next oil power, liberalization of import rules is just beginning. The goal is to eliminate protectionism, and eventually make both imports and exports more competitive in world markets.

By 1982, the tariff system controlling imports is expected to be completely restructured. As part of President Lopez Portillo's new focus on raising Mexican industry to world levels in price and quality, manufacturers will gradually be brought out from under the protective umbrella of the current system limiting imports by quotas and licensing.

Already, more than half of the tariff classifications have been eliminated from import permit requirements. So far, however, they are mostly raw materials, agricultural goods, and luxury consumer items, which now become subject to higher tariffs. No schedule for eventual lowering of the tariffs has yet been formulated.

But eventual tariff reductions, as Mexican products become more competitive, will ease the mechanics of importing into Mexico. The present cumbersome and bureaucratic licensing system functioned reasonably well for four decades, while Mexico pursued the import-substitution model of industrialization. This model has been a Third World favorite used by developing countries to protect infant industries against foreign imports.

Domestic opposition

Such a change, however, meets opposition from domestic producers, despite President Lopez Portillo's dictum that development "should not be limited by protectionism of whatever type." Accordingly, while a notable start has been made, Mexico's policy of careful protection for domestic industry has not been basically changed as yet.

The United States continues to be Mexico's best trading partner. Sitting on the doorstep of the world's biggest consumer market, Mexico sends on the average about 60 percent of its exports to the United States. In turn, Mexico ranks fourth among

U. S. customers. Efforts by Germany, the United Kingdom, France, Japan, and Canada to build up trade have been only mildly successful because of the U. S. geographical proximity, easy servicing possibilities, quality, price advantage due to the dollar decline, as well as traditional commercial and financial links.



U. S. trade balance in 1980

The United States for a long time has had an appreciable positive trade balance with Mexico, but in recent years this has become smaller, paradoxically, even as U. S. exports have continued to mount. Increasing Mexican petroleum exports are responsible for the trend toward equality, and 1980 may be the year in which the trade balance becomes positive for Mexico. An agricultural surplus, and the possibility of tourism earnings of nearly \$3 billion from the expected 3.76 million tourists, add to the favorable trade prospects for Mexico.

Despite this swiftly changing economic scenario, Mexico still requires substantial foreign investment to create jobs and acquire the technology to build a modern economy.

Foreign investment has been a tender subject, and a controversial one, since the end of World War II. Mexico alternately has welcomed direct foreign investment and then, under nationalist pressure, placed barriers that sharply limited its role.

Foes of foreign investment

Opposition to foreign investment has in part come from the domestic private sector, seeking to protect its own investment from tough competition, as well as from ultranationalistic economists and academicians who have been influential in formulating

(continued)



William G. Stlocum Jr.
President
GENERAL MOTORS
DE MEXICO, S.A. de C.V.

Investment Opportunities

The economy of Mexico has stabilized and is now expanding. Prospects for ongoing growth are excellent in view of: the expected continuance of sound economic management; the development and exploitation of natural resources; and the improvement in private sector confidence.

Mexico's renewed vitality; growing internal market; historical freedom of currency exchange and capital remittance . . . are attracting strong investor interest.

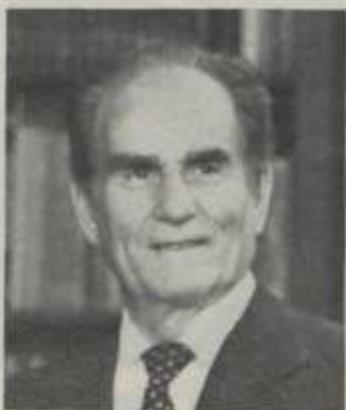
The Mexican government has clearly stated its wish for investment projects that include exports and will entail a transfer of technology. The government will also offer

incentives to encourage balance in the geographic distribution and competitiveness of its industry in world markets.

Areas in which foreign investment are especially wanted by the government of Mexico are secondary petrochemicals, capital goods and mining. Opportunities exist as well in other fields including the manufacture of automotive components.

These opportunities, as well as Mexico's applicable regulations and possible incentives, deserve careful study by prospective investors.

Our Foundation: Mexico's Political Stability



I believe the environment for investors in Mexico has been analyzed with rather myopic views by some Mexican and most foreign investors—views which seemingly circumscribe the history of the Mexican economy and focus only upon the critical 1974-76 period and its consequences. It appears that such views intentionally ignore the fundamental reality of the Mexican democracy during the past half century: Political stability.

Mexico's traditional political stability is the best guarantee for any investor and an underlying cause of the economic recovery during the last two years.

However, Mexico is not a country for opportunists. Mexico's 50 years of political stability mean that the nation has been and continues to be one of the countries which offers more security and more opportunities to real investors and qualified businessmen.

The group of expanding enterprises which I control is a testimonial to the importance of Mexico's tradition of political stability. Such stability prompts my continual investment in this group which serves a cross-section of Mexico's growing national economy.

- 1 *Gigante, S.A.*—25 self-service stores located in the capital's federal district, *Estado de Mexico* and *Guadalajara*.
- 2 *Toks, S.A.*—nine cafeteria restaurants located in the metropolitan area of the nation's capital.
- 3 *Panificadoras Gigante, S.A.*—eight complete bakeries associated with our retail chain.
- 4 *Farmacia Gigante, S.A.*—ten complete pharmacies associated with Gigante chain.
- 5 *Lyraza*—one chocolate and candies plant with divisions manufacturing cosmetics and hygienic products.
- 6 *Novug, S.A.; Infancia, S.A.; and Walter, S.A.*—three pharmaceutical laboratories.
- 7 *Interouim, S.A.*—one manufacturing plant of chemical-pharmaceutical products.
- 8 *Ola Polanco, S.A.; Naucalpan Automotores, S.A.; and Automotores Economicos, S.A.*—three automobile agencies retailing the Volkswagen, Chrysler and Datsun lines.

This group of enterprises currently employs 6,200 people. My confidence in Mexico's political stability and developing economy means new expansion projects which will create 3,000 additional jobs during the administration of President Jose Lopez Portillo.

Angel Losada Gomez
Chairman of the Board
GIGANTE, S.A.

ing legislation.

Criticism hinges around fear of excessive domination of the economy, especially by big multinational companies who traditionally have been the investment leaders in Mexico. Opponents also argue that the cost of the technology introduced is excessive, and that large-scale remittance of dividends, royalties, and interest harms the economy.

The result of the sometimes restrictive climate is that only about five percent of the Mexican industrial machine is foreign-owned, compared with ten times that much foreign ownership in Canada and Australia, for instance. And the over \$4.3 billion U. S. investment represents about 73 percent of the \$6 billion total foreign investment in Mexico. Significantly, increasing participation by other countries has reduced the U. S. share from its peak of 81 percent in 1971, when U. S. investment totaled \$2.4 billion.

Under President Lopez Portillo, a new attitude toward foreign investment seems to prevail, although there has been no change in the three basic laws governing foreign investment. The President has stated his belief in absolute respect for foreign investment within the framework of existing legislation, which, he says, will be maintained unchanged.

Move to Mexicanization

However, the ground rules are not easy. The 1973 general law governing foreign investment solidified Mexicanization as a fact of life. New investment, or new activity created out of an existing investment, must contain at least 51 percent local capital. Further, acquisitions now are controlled under similar standards. Many existing foreign-owned businesses also are affected, if not directly by the law, then by attitudes and interpretations which they contend limit their potential for growth unless they join the swing to Mexicanization.

Laws applying to technology transfer provide for a case-by-case review of contracts to make sure that these contain none of the objectionable features enumerated in a list of guidelines ranging from contract duration and limitations on export activities to ownership of locally developed innovations.

The government reviewing office—the Registry of Transfer of Technology—is empowered to determine what is a reasonable cost of given technology, weighing factors such as comparative charges for similar technology throughout the world, relevance to Mexico's needs, and nature of the industry. There is no fixed acceptable percentage in some industries. Uses calling for charges no higher than one percent of sales have been rejected, while in other industries a rate of four percent or more has received approval. Reviews tend to look at absolute costs rather than percentages.

In mid-1978, the Registry of Transfer of Technology was merged into the Foreign Investment Commission under a single head and companies dealing with the commission report greater flexibility and pragmatism in its decisions on foreign investment petitions, as well as its review of transfer of technology contracts.

Another controversial measure, controlling new inventions and trademarks, also tends to handicap foreign investment. Written into law in 1976, but held partially in abeyance until early 1979 because of harsh criticism from the private sector, the law eliminates patents in certain industrial property cases and requires foreign names and trademarks to associate with Mexican names.

Attractive investment market

The rapid growth of foreign investment, despite these handicaps and restrictions, indicates that those already active within the Mexican economy can work within the existing framework successfully, if not ideally. The country's economic and political stability has made it an attractive market for investment, and its new petroleum-fueled prosperity makes it almost essential for some investors to become partners in future development. •

great abundance from the southern state of Chiapas, as well as in northern Mexico in the states of Coahuila and Tamaulipas.

In May, 1977, Mexico announced the proposed building of a large-diameter gas pipeline from the producing areas in Chiapas and Tabasco to the U. S. border and the subsequent sale of two billion cubic feet per day of natural gas to the United States. But by December of 1977, opposition in Washington to the proposed natural gas contract terms led to an impasse, and the letter of intent between a consortium of U. S. gas companies and Pemex was allowed to lapse.

No new agreement over the possible sale of Mexican natural gas has been reached, and conversations between the United States and Mexico on this subject have been relatively dormant, at least officially.



Gas for domestic industry

The Mexican government, meanwhile, has announced that it will develop its natural gas resources for domestic industrial use. Although the first phase of the gas pipeline project, the portion of the line between the gas fields in Cactus, Chiapas, and the major industrial area of Monterrey, in northern Mexico, will be completed by mid-1979, action on the line connecting it to the U. S. border is stalled.

Most observers, however, believe that the door to eventual purchase of at least a portion of Mexico's natural gas has not been shut. The subject is expected to be a key part of President Jimmy Carter's agenda during his February visit to Mexico.

President Lopez Portillo, Pemex Director Jorge Diaz Serrano, and millions of Mexicans are optimistic about Mexico's future and about the role petroleum will play.

Says Mr. Diaz Serrano: "We have sufficient reserves to finance and develop the aggressive programs we have laid out."

U. S. a top customer

How does the United States fit into these ambitious programs?

Pemex officials and others, in both the public and private sectors point out that the emphasis on the use of Mexico's expected new wealth is on capital goods and industrialization and the U. S. will get its share of those purchases.

As a client for Mexico's excess petroleum products from the beginning, the U. S. will undoubtedly have a major new energy supply, but certainly the U. S. will not be the only buyer. As Pemex's Director Diaz Serrano says: "We are happy to have such a good customer in the United States, but we are looking for good customers in other parts of the world because we feel we are better off with two or three friends than with only one. •

Modernization Calls for International Joint Ventures to Ensure Technological Progress



Prior to the energy crisis, Mexico was among the many countries which imported oil. Simultaneously, however, the industrial sector had developed at an annual rate of eight percent.

After the crisis, the oil sector became reactivated to such a degree that after 1979 Mexico will be one of the world's largest oil exporters. This is a major achievement for an economy that experienced not only the energy crisis, but the peso devaluation of 1976 as well.

The abundance of dollars accruing from these oil exports will be complemented by the increasing availability of natural gas (which is cheaper than oil) for domestic industry. Thus, the already established and dynamic industrial platform will gain momentum and provide a powerful stimulus to the economy.

Within this framework of rapid economic recovery, the private sector is acting in an increasingly efficient manner, as witnessed by its organization into economic groups, some of which are international in scope.

One of them, the *Grupo Chihuahua*, serves an increasing number of sectors: *Multibanco Comerces* with more than 300 branches in the country; *Grupo Seguros La Comercial* with seven companies; 14 plants integrating *Celulosa de Chihuahua*; steel and cement companies; drill collars for the oil industry (joint-ventures with Smith International); real estate, machinery and equipment for construction; air transport; and, more recently, international trade companies.

Today's *Grupo Chihuahua* has offices in New York, Chicago, Los Angeles, Dallas, El Paso, Madrid, and São Paulo, as well as plans for London, Houston, Paris, and Ryad. Our present and future joint-ventures with international companies providing advanced technology will allow us to continue penetrating wider markets.

We are more than confident that the oil boom is the indicator of a rapid and sustained industrial boom.

Eloy S. Vallina
Chairman of the Board
GRUPO CHIHUAHUA

Belief In . . . "The Growth of This Great Nation!"



The guidelines set by the Mexican government, such as the alliance for production, price policy control of expenditures, and other policies are a guarantee that Mexico is a country with a bright future.

It is the responsibility of companies such as IBM to work together with such government projects to insure that their pragmatic goals are achieved.

Our company is very much aware of its responsibility and, consequently, we have established an aggressive plan that includes:

- 1 *Manufacturing:* Mexico exports electric typewriters from the IBM office products plant in Guadalajara to 35 countries.
- 2 *Peso billing:* In cooperation with the Mexican government, IBM decided to invoice its customers in Mexican pesos.
- 3 *Latest technology in Mexico:* One of the important goals of the government is the progressive industrialization of the country in which IBM collaborates actively.
- 4 *Employment:* Our company contributes to the economic development of Mexico through the jobs generated within IBM and the subcontracting with suppliers.

As you can see, IBM does believe in the growth of this great nation.

And we, as active members of the Latin-American community, trust that Mexico's role as a leader is well-founded.

Carlos E. Pacca de Almeida
President
IBM DE MEXICO, S.A.

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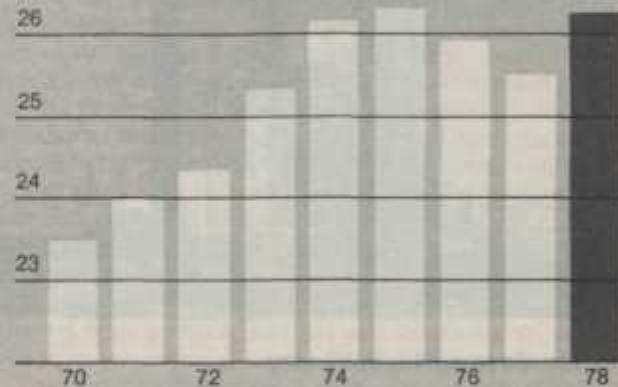
It is only just to recognize, once again, that the greatest anti-inflationary effort has been made by large groups of workers. In acknowledgement of this backing, the Executive Branch decided to adopt, in a separate piece of legislation, a substantial reduction in the income taxes which affect workers and office employees.

Money in circulation, through the month of October, grew around 30 percent in relation to levels a year earlier; a 24 percent overall growth for 1978 was forecast. The government in 1978 has not turned to printing currency to finance its spending program.

The banking system

Funds taken in by the private and government-private banking system showed an extraordinary increase, with deposits rising 33 percent. It was estimated that for 1978, an unprecedented total of 75 billion pesos has been granted in loans by banks.

PER CAPITA GDP
(000 pesos/year in 1977 pesos)



Internal revenue

Tax revenues for 1978 reached an estimated 289 billion pesos, up 25 percent from the prior year. Government agencies and businesses added another 324 billion pesos of income.

Net public spending in 1978 rose to 724 billion pesos, leaving an estimated deficit of 111 billion pesos which was financed with domestic savings and loans from abroad without causing inflationary pressures. While the figure is larger than earlier forecast, it is due fundamentally to growth in the economy which surpassed original estimates.

Net new government foreign indebtedness abroad was at a level of two billion dollars in 1978, as announced when the 1978 budget was presented. This reiterates the Executive Branch determination and purpose of maintaining a reduced growth rate in foreign loans. Advances have been made in slowing the rate of increase of debt and in bettering the time periods and costs of foreign financing.

In general, improvement of government financing continues. One demonstration of this is the fact that internal savings has financed a growing proportion of federal outlays in the last two years. Contributing to this have been greater financial discipline, surpluses shown by Petroleos Mexicanos and some price and rate adjustments by government owned businesses and agencies. Important advances also have been made in strengthening federal funds sharing programs with states and municipalities.

In resume, economic progress in 1978 was favorable. The primary task of reactivating the processes of investment outlays

and savings, an extremely important matter, has practically been concluded.

Post-devaluation readjustments are now no longer a curb on Mexico's growth. The determination and talent of all Mexicans, united in the Alliance for Production, together with the backing and strong solidarity of all productive sectors of the country, has permitted Mexico to overcome one of the most critical situations of its recent history.

The outlook for 1979

These are the highlights of a recent interview with Finance Secretary Ibarra:

Will the government continue to avoid printing currency?

The behavior of the money supply will continue to be closely watched in order to cancel any excess which cannot be justified by growth of the real economy. We will not resort, in any case, to spending financed by the issuance of currency.

What is the forecast for price increases in 1979?

An increase of between 12 and 13 percent is contemplated for 1979, as against 16 to 17 percent for 1978.

What is being done in the areas of production and exports?

The Executive Branch in 1979 will intensify its promotion of solutions to bottlenecks in supply of products, which bring on

price increases and speculation. Outstanding already is the concerted development program for increasing installed capacity and maintaining exports of cement to the United States market, which is an initial advance.

Similar efforts will be made to increase the carrying capacity of the railway system, to increase the manufacture of industrial and transport equipment, and to expand the steel and copper manufacturing industries. In agriculture, programs are going into action to increase the supply of corn, beans and oilseeds through increased plantings.

What is the forecast on Gross Domestic Product growth for 1979?

It seems reasonable to fix as a minimum growth rate 6.5 percent, which would be an increase over 1978 and an advance in accelerating the creation of jobs.

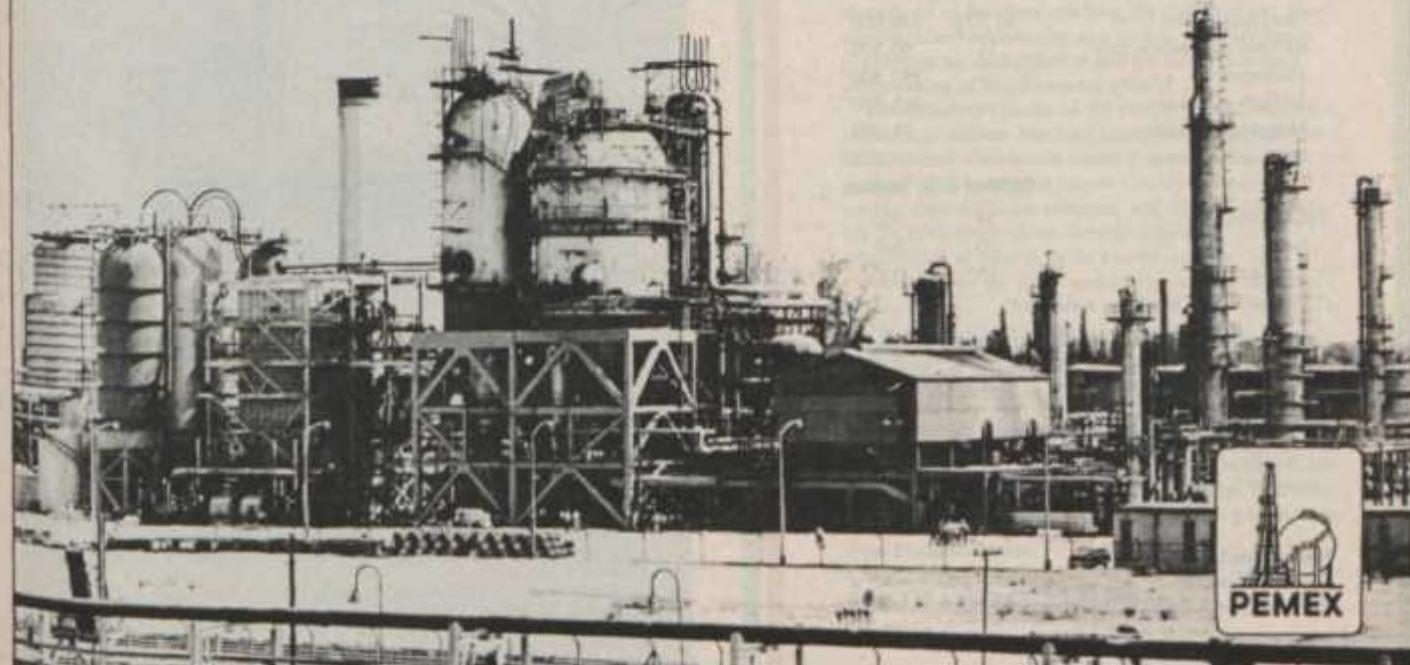
What about additional foreign debt?

In 1979 a new reduction in the rate of foreign indebtedness is planned. The amount of three billion dollars as the total increase of the foreign debt has been set. This figure is nearly 50 percent below that of 1976 and similar to those of the two following years despite the need for financing large public outlays associated especially with energy sources and food production. Mexico's international prestige would unquestionably allow the country to contract greater volumes of international financing but this would go against the purpose of slowly liberating the balance of payments and the budget from the anchor of excessive indebtedness. ●

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 Successfully



Industrias Penoless is a holding company engaged, through its subsidiaries, in the development and processing of mineral resources.

This corporation was a pioneer in the Mexicanization of the mining industry which began in 1961. Today, *Penoless* has achieved 94 percent Mexican ownership.

During our 18 years of Mexicanization, *Penoless* has attained a remarkable degree of solid growth and diversification, as illustrated by the following figures:

| | 1961 | 1978* |
|-------------------------|----------------------|---------|
| Operating mining units | 3 | 11 |
| Silver production: | | |
| million ounces | 15 | 36 |
| Metric tons | | |
| Lead production | 81,353 | 130,600 |
| Refined zinc production | — | 90,500 |
| Fluorspar | — | 262,400 |
| Sodium sulphate | — | 285,300 |
| Magnesium oxide | — | 74,600 |
| Basic refractories | — | 69,200 |
| | Million U.S. Dollars | |
| Total Assets | 34 | 500 |
| Sales | 30 | 360 |
| Exports | 15 | 200 |

(*November & December estimated)

Medium-range planning includes: The development of several mines, increasing our capacity in chemical operations, and consideration of an ambitious project for the production of alumina.

Summing up, *Penoless* is fulfilling its role in the development of Mexico by creating jobs and new centers of economic activity, thus making an outstanding contribution to the national export trade.

Pedro Sanchez Mejorada
 Director General
 INDUSTRIAS PENOLESS, S.A. de C.V.



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437 Madison Avenue, 32nd floor, New York, N.Y. 10022

Quirey do Brasil Industria e Comercio Ltda.
Av. Ipiranga 318 - 17 andar São Paulo, Brasil

The Pre-conditions for Fast Economic Growth Have Been Laid



Mexico's 65 million people form one of the most dynamic markets among the developing countries. Its geographic position bridging two large oceans and bordering the U.S. Sun Belt places Mexico in a growing role in world trade.

Mexico has become increasingly industrialized. We are entering a new phase of industrial activity, which is the production of intermediate capital goods and massive export of consumer durables. The long record of political stability, marked by significant economic development and social progress, has prepared the country to initiate a faster pace in industrial expansion. Putting to work two exceptional assets of the country: A disciplined, productive work force, and the abundance of fuel now reaching the market is our great challenge and opportunity as a nation. At Multibanco Comermex we understand it and we are increasingly participating in this economic growth.

The attractive climate of the Pacific Coast, the Gulf of Mexico, and the Mexican Caribbean combined with the spectacular mountain chains that characterize the country mixed with our people's ready, friendly smiles, their welcome manners, and cultural traditions allows the country short-term developments and possibilities of growth in the tourist industry. Here at Comermex, we are ready and willing to help investors in this field.

The new cooperation between the federal government and the private sector, which is very much encouraged to expand its activities in the domestic and foreign markets, has brought back the confidence that we all needed. Capital, know-how, and many technologies are welcome in Mexico where they are needed—and at Multibanco Comermex we will do what is necessary to bring them together.

Jose Pintado Rivero

Chief Executive Officer

MULTIBANCO COMERMEX, S.A.

MEXICO'S RECOVERY

BEST PROSPECTS FOR U.S. EXPORTERS

The U. S. has traditionally enjoyed the role of main supplier and buyer in Mexican trade. This position has even been strengthened in the past few years. From 1973 to 1977, the U. S. share of total Mexican imports rose from 59.7 percent to 63.6 percent.

U. S. exporters have several advantages in competing in the Mexican market. Mexico's geographic proximity permits fast delivery, lower transportation costs, and easily accessible servicing and technical assistance. U. S. products have a reputation for quality, many are long established in the market, and are well liked.

The following rundown of nine of the best prospects sectors for U. S. exporters to Mexico illustrates the potential for an increase in U. S. exports in these sectors.

Metalworking equipment

Mexico has long been an importer of metalworking equipment. Given the expected revival of the Mexican economy, demand will increase for the larger, more sophisticated items of equipment not made there. The average annual growth rate for 1978-1980 should be close to 35 percent.

Electronic production and test equipment

More than 85 percent of all equipment used for electronic testing and production was imported in 1976. U. S. suppliers are dominant in all lines of equipment, but more so—90 percent import share—in high-technology equipment for integrated and hybrid circuit production than in equipment for electronic and product production—a 60 percent import share. The U. S. dominance is largely because of service availability, even when some Japanese and European equipment is lower priced.

Agricultural equipment

Agricultural equipment has a medium potential for incremental sales for several years ahead, as the Mexican government is active in irrigation projects, extension of agricultural credits, and increasing the productivity of communal lands. According to trade experts, the Mexican agricultural machinery and equipment import market will increase 23 percent annually over the next four years. However, import licenses for some equipment are difficult to obtain because of domestic manufacturing.



Enrico Pozzo
Director General
OLIVETTI MEXICANA S.A.

Success: Confidence, Energy, Cooperation and Markets

A new and stimulating spirit of optimism and confidence prevails in today's Mexico, in the industrial sector as well as in the commercial, financial, agricultural and social areas. This fresh spirit in motivating new developments, with foundations based upon the pragmatic public and private programs, which are currently operative.

Mexico's energy resources—principally petroleum, gas and the national electrification program—have improved the prospects of all sectors of the economy. And the joined forces, within the mixed economy, represent an effective alliance to overcome the development problems which face the Republic.

Within this context the development reached by our company during three decades in the Mexican office machine industry, is indeed significant. The successful manufacture in Mexico of OLIVETTI typewriters, in accordance with our traditional internal standards, is one example of the ample possibilities offered to investors by the Republic, thanks to the potential of its fast-growing national market and the Government subscription to the Latin American Free Trade Association.

Production process control instrumentation

Despite the weak domestic economy, demand for process control instrumentation remained strong in Mexico in 1977 and is expected to continue growing through 1980 at a rate of about 40 percent yearly. Increasing labor costs and union fringe benefit demands are making labor-saving equipment more attractive. The U. S. enjoys 75 percent of the import market.

Engines and mechanical power equipment

The market for engines and mechanical power equipment will grow considerably over the next several years because the Mexican government is investing several billion dollars in the development and expansion of the petroleum and electric power industries. This will require increased imports. Roughly 93 percent of the import market in this product category presently belongs to the U. S., and over the next five years, Mexico will continue depending largely on foreign suppliers.

Construction, mining, and materials handling equipment

Imports of this product category into Mexico will grow at an estimated average rate of 19 percent annually during the period 1977-1981. Due to the preference for U. S. heavy machinery and equipment, it is estimated that there should be no substantial change in the 70 percent U. S. share of imports.

Health care equipment

The Mexican government plans to establish many hospitals and clinics, particularly for preventive and nutritional medicine. Products imported from the U. S. have a predominant position due to high technological development and quality, even though priced generally higher.

Other foreign suppliers, however, especially the Japanese, tend to be more aggressive in marketing, so U. S. suppliers will have to make a greater effort to retain and increase their market share.

Food processing and packaging equipment

The food industry continues to be Mexico's largest single industrial sector in terms of numbers of firms and employees, with imports currently accounting for approximately 57 percent of Mexico's consumption of food packaging equipment. Mexican imports of this equipment are projected to total just over



\$500 million during 1977-80, with the U. S. accounting for approximately 60 percent of these imports. Increased marketing efforts appear necessary to maintain or expand the U. S. share of this significant export market.

Scientific, industrial, technical, and laboratory instruments

This sector has a high potential for incremental export sales in the Mexican market due to Mexico's plans for expansion of its petroleum, petrochemical, and steel industries, and quality improvement to make products competitive in international markets. •

(Extracted from "Business/Mexico," 1978 edition, published by the American Chamber of Commerce of Mexico, Lucerna 78, Mexico City 6, D.F., Mexico—\$45 postpaid)



Christopher R. Albright
President
PEPSI-COLA
MEXICANA, S.A.

Expansion without Sacrifice of Equity

Since the inauguration of the current administration in December, 1976, Mexico has undergone an impressive political and economic transformation. Although intentionally gradual and still fragile, the country's recovery has been dramatic. The outlook for the future is equally positive.

Of importance to U.S. businessmen is the government's evolving attitude toward the application of Mexico's restrictive foreign investment legislation. Recognizing both the country's needs and the potential contribution of foreign capital and technology, a new cadre of bright, young technocrats is quietly encouraging direct and open dialogue with investors. Their aim is to promote investments which complement the country's goals and priorities.

Mexico's national investment goals include: Job creation to increase employment,

increased exports to aid the balance of payments, technology transfer to build for the future, and industrial decentralization and regional development to ease urban pressures.

The country's priorities feature the specific development of: Agricultural production, fishing and related industries, petrochemicals and derivatives, and new capital goods industries.

To the extent that new foreign investment projects can be shaped to make a major contribution to the above goals, the foreign investment commission appears willing to provide a flexible application of the laws regulating equity and technology. As a number of established foreign companies (including PepsiCo) can now attest, this flexibility includes expansion without the sacrifice of equity.

MEXICO'S RECOVERY

AMCHAM MEXICO— A WARM AND FRIENDLY VOICE

Describing their growing interdependence with the United States, Mexicans often good-naturedly jest: "Poor Mexico, so far from God and so near to the United States."

The United States has long been Mexico's biggest customer, but the exchange of trade is very far from being one-sided. Think of a U. S. product or service, and, lo, there it is, in television, in newspaper ads, in the yellow pages.

Mexicans travel to their offices in Ford Fairmonts, Chevrolet Caprices, Dodge Darts and AMC Gremlins, although all of these are outnumbered by the ubiquitous Volkswagen. The more affluent are apt to sleep on a Simmons or Sealy. And in the big cities, the great old tortilla, filled with luscious tidbits and called a taco, is gradually nudged aside by the American hamburger chains. The list is endless.

By official admission, foreign investment in Mexico represents only about five percent of total productive investment in the nation. But if it is not dominant, it is certainly visible. And 73 percent of the \$6 billion of foreign investment in Mexico—about \$4.3 billion—is from U. S. investors.

Most of this U. S. capital is represented by companies that are members of the American Chamber of Commerce of Mexico. AmCham Mexico, as the organization is called, has been busily promoting U. S. investment in Mexico and U. S. trade with Mexico for more than 60 years. Founded in late 1917, AmCham Mexico provides a strong but warm and friendly voice in its dual role of helping interpret U. S. business to Mexico and Mexico's changing position to the organization's 2,300 corporate members—670 of which are U. S. corporations or their subsidiaries.

It does this in just about every conceivable way. Hardly a week goes by without a major publication, seminar, or other project sponsored by AmCham Mexico. A typical week will see such activities as the publication of the Chamber's monthly "Mex-Am Review," the only English-language business magazine published in Mexico; the appearance of one of the Chamber's regular surveys on cost of living, salaries and benefits, or labor contract negotiations; one of the continuing series of popular Forum Luncheons, with a key guest speaker from such fields as education, industry, tourism, or government; a seminar on taxes (AmCham Mexico's congressional committee has been a leader in the fight against U. S. tax inequities for American citizens working abroad); the staging of a plant visit to some industrial operation in the surrounding Valley of Mexico or even to distant industrial centers like Queretaro, Puebla, or Veracruz.

With a staff of more than 50, and still expanding, with offices in Guadalajara and Monterrey, the country's second and third largest cities, and occupying three floors of a modern office building just off the tree-lined Paseo de la Reforma, AmCham Mexico can call on 650 top business executives who are members of 30 different committees, all of whom meet regularly and devote considerable outside time—as well as talent—to Chamber activities.

The chairmanship of AmCham Mexico's board changes annually. This year's incumbent is a prominent young lawyer, Jorge Sánchez-DeVanny, who is the Mexico City-based partner



A 92-year "Vote of Confidence"

The Singer organization began its operations in Mexico in 1887 by offering its mechanical wonder, the sewing machine, to the Mexican market.

Today, as in those early years, credit was extended to the general public making possible this most important purchase by the many rather than a few. The sewing machine has been a significant as well as a positive factor in many family budgets.

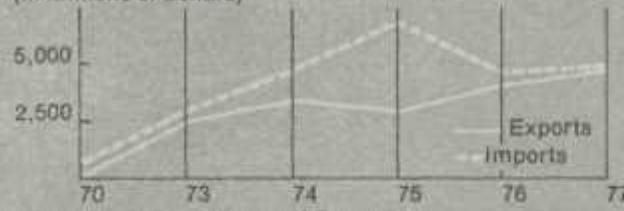
Now, 92 years later, Singer enjoys the same high confidence it has had throughout the years due to the high quality sewing machines manufactured entirely in Mexico.

Singer has tremendous faith in Mexico's future and will continue as one of her responsible participants in the economy and the community. This faith is not only based on many years of experience, but also upon Mexico's commitment to her people: To improve the standard of living, to create economic opportunities for all, and to live in a union of freedom and social responsibility.

Thomas L. Hogan
General Manager
SINGER MEXICANA,
S.A. de C.V.

of the international law firm of Baker & McKenzie. Full-time management is in the hands of two Mexico-born Americans who were long-time U. S. businessmen before taking over the reins of the organization. They are Chamber President Al R. Wichtrich and Executive Vice President John M. Bruton.

MEXICO'S TRADE WITH THE UNITED STATES (in millions of dollars)



Source: U.S. Department of Commerce.

In an interview with *Nation's Business*, their answers to a series of broad-based questions give some up-to-the-minute insights into Mexico's current progress.

Many responsible Mexicans are putting all their eggs in one basket, so to speak, when they say that Mexico's future lies almost entirely in petroleum. Do you believe this?

We agree that Mexico's spectacular oil discoveries of recent months are an important factor. But more important is the development that will result from the judicious use of the income derived from the sale of the country's petroleum abroad. Mexico's leaders are fully aware of this. All the eggs are not going into a single basket.

Is Mexico developing the necessary management skills and personnel? Many large companies are replacing their traditional U. S. management personnel with a new breed of bright young qualified Mexicans. Are there enough to go around as the country's industrial and economic progress continues?

It is true—and we believe it is healthful—that in the past few years many foreign companies have been replacing some of

their top personnel with qualified Mexicans. There are strong indications, however, that the supply might not meet the demand. That is why growing emphasis is being placed on the proper training of Mexicans, not only at top management level, but in middle management as well.

It is interesting to note also that in years past an assignment to Mexico was looked on as a special plum for the U. S. executive. It often came after a long career in less hospitable areas, not infrequently as a prelude to retirement. This has changed, and when executives come to Mexico from major companies they are often rising stars the company is watching carefully, and their Mexican assignment is a stop on the way to greater heights within the company.

We have heard that the in-bond assembly plants along the border have had problems. How are they working now?

After a few years of slump, the in-bond border plants—or *maquiladoras*, as they are called in Spanish—have recovered lost ground and are growing rapidly. More than 80,000 workers are now employed by these plants, and a large percentage of them work for firms that are members of the American Chamber of Commerce of Mexico. We work very closely with these companies, through a permanently staffed department. We produce special reports and bulletins on the interpretation of Mexican laws and regulations that govern these industries. And we maintain vigilance over any possible legislation in Washington that could affect them. We hold frequent seminars on aspects of the border industries, and we even publish a regular newsletter on the subject.

What does the Chamber see as the outlook for U. S. business in Mexico during the next several years?

We see the future of Mexico's economy—and the future of U. S. investment—as being very bright. That future reflects, of course, the interdependence of the U. S. and Mexico. Today the United States is Mexico's number one customer for everything it exports, and Mexico is the fourth largest customer for everything the U. S. exports. Sixty percent of Mexico's exports go to the United States, and 60 percent of everything Mexico imports comes from the U. S. So you can see how important both countries are to each other. •

Media Observations



Five words—geography, stability, competence, history and petroleum—are symbols of U.S.A. and Mexican relations. These symbols add up to one truism which is most appropriate for United States businessmen: "Mexico 1979 offers many business opportunities."

Specifically . . .

Geography—the importance of being friendly neighbors is obvious.

Stability—having a neighbor with traditional political and economic stability is also significant.

Competence—following the difficult 1976

economic crisis, the current government of Mexico has demonstrated the competence necessary to turn around the national economy.

History—within this environment favored by geography, stability and competent government administration, the history of most United States manufacturers in Mexico has been both long and profitable.

Petroleum—fueled by the "oil miracle," the Mexican economy offers today's businessman many opportunities.

Romulo O'Farrill, Jr.
Chairman of the Board
TELEVISA, S.A.
Editor-in-Chief
NOVEDADES EDITORES, S.A.

A Future without Limits . . .



The stabilization of the Mexican economy is now an accomplished fact. Mexico is again an attractive market for foreign investment.

Our estimation of the future growth potential for *Texaco Mexicana, S.A.*, as a "Mexicanized" company which is 60 percent owned by the Mexican investing public, is so optimistic that we believe *Texaco, Inc.* will have a greater yield within a few years on its 40 percent interest than with its previous 100 percent control plus with better prospects for growth.

We raised approximately 3.5 million dollars in the Mexican stock market where we feel we obtained a better price than we could have from a private sale. These proceeds are being partially utilized to increase our present capacity to meet the heavy demand expected over the next few years; proceeds are also being used in part for expansion into secondary petrochemicals, where the sky is the limit when growth is concerned. Our new Mexican shareholders have elected an extremely competent board of directors who I feel will quickly guide the company to intelligent diversification using the technology of *Texaco, Inc.*, wherever applicable.

R. Curtis Fitzgerald
Director General
TEXACO MEXICANA, S.A.



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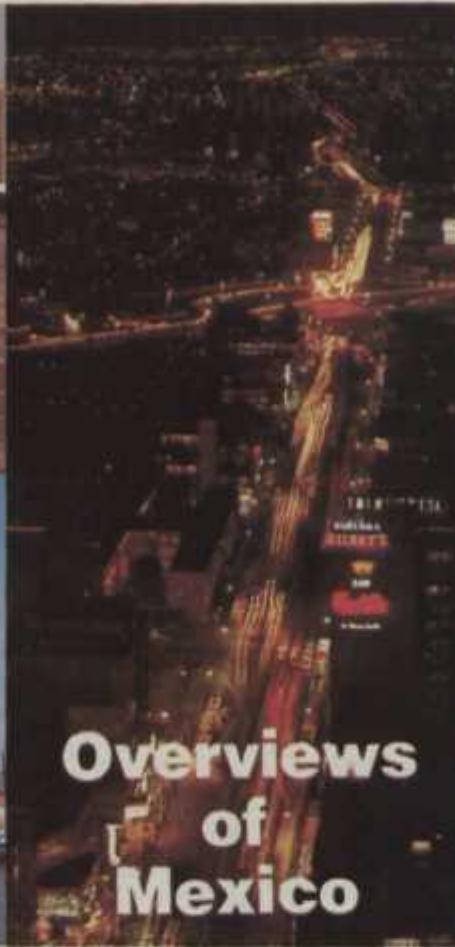
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INQUIRIES

Correspondence addressed to private participants may be sent to the New York office of Sullivan Sarna at 299 Park Avenue, New York, N.Y. 10017 for immediate forwarding to the correct address in Mexico. Forwarding envelopes marked "confidential" will be inspected.

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Overviews of Mexico

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continued from page 48

city's business community of that. "Just the thought of country music generates interest in Nashville," says Richard M. Kinney, director of conventions and visitors for the chamber of commerce.

That image is reinforced in 19 million homes that are exposed to Nashville's music every week through the syndicated television shows that are carried by about 670 TV stations and produced at Opryland Productions. Started in 1974, Opryland Productions utilizes the extensive television facilities that were built into the new Opry House. Currently, five nationally syndicated television shows are produced there, including *Hee-Haw*. In addition, dozens of pilots and television specials originate there. One of the specials produced there two years ago was the *Dance In America* series.

World's best TV facilities

"It was neither an accident nor a clever public relations stunt that brought the New York City Ballet to a television studio where clog dancers normally rule," reported *TV Guide*. "They did it because, quite simply, Opryland Productions has possibly the best television facilities in the world."

Opryland Productions grew by more than 250 percent its second year, 32.5 percent in 1976, and 33 percent in 1977. Revenues have increased from less than \$400,000 in 1974 to \$1.9 million in 1976. Today, Nashville is the largest TV production center outside New York and Hollywood.

Forty years ago, country music was confined almost exclusively to the South, but World War II changed that. Thousands of Southerners moved into the Midwest and the industrial Northeast, bringing country music with them. Likewise, thousands of Northerners moved into the military training camps of the South, where they were exposed more to the charms of country music.

Most fans in Midwest

Mr. Waugh, former WSM president, recalls: "After World War II, we noticed that, although we still had the same following from the Deep South, our greatest concentration of country fans came from the upper Midwest."

While the same pattern exists today, country fans represent a cross section of radio listeners everywhere. According to the Country Music Association, '73 percent of all country music listeners come from households that have

PHOTO: BILL LAFEVER



Irving Waugh was instrumental in the conception of the Opryland complex.

incomes between \$10,000 and \$40,000 annually. Half are in the preferred buying age bracket of 25 to 49.

More than 25 percent of all country music listeners are in professional, technical, executive, and sales positions. Another 41 percent are skilled or semiskilled employees, according to the association.

There are several directions in which country music can continue to grow. Radio programming is one. The 1,150 radio stations that now play country music full-time are still a small percentage of the total number of radio stations nationwide.

Another growth area is television, where country music still has only modest exposure. At present, there is no regularly scheduled network variety show with a country music format.

"We have seen nothing to indicate that there is a limit to the growth of country music," says Mr. Waugh, who today packages ideas and serves as executive producer for specials designed for the major TV networks.

"Country is big business, and there's no stopping it now."

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Free Advice Pays Off

Development centers provide professional skills that help companies survive

By Roberta Graham



"I can't understand why, in a country as great as ours, a small business should have so much trouble surviving," says Chester Laycob, whose handbag firm was revived with the help of the St. Louis Small Business Development Center.

In 1975, Chester Laycob closed the doors to his manufacturing plant in St. Louis, Mo., for the last time.

Increasing imports of shoes and handbags had forced him to liquidate his entire stock. But Mr. Laycob didn't want to abandon the 150-year-old, family-owned company. Eventually, he heard about the University of Missouri Small Business Development Center in St. Louis. Business experts there showed him how to revive the venerable company.

In 1976, John R. Bray, electronics research development director for Monsanto Corp. and part-time inventor of medical gadgets, began manufacturing a portable device he invented that transmits a pacemaker patient's electrocardiogram over the telephone to a doctor. With annual sales of only \$30,000, he couldn't afford to hire a private consultant, but he wanted to get his business moving.

After he saw an advertisement in a

local paper, he contacted the Small Business Development Center at the University of West Florida in Pensacola. With help from the center, he avoided making the mistakes that would have resulted in business failure.

Classic dilemmas

Small business development centers are located in academia, but the solutions to business problems that they provide are far removed from the pat textbook answers to classic business dilemmas.

Fashioned after the partnership established a century ago by agricultural schools, the government, and the American farm community, the centers—two in California, and one each in Florida, Georgia, Maine, Missouri, New Jersey, Nebraska, and Washington, D.C.—offer professional help at no charge to small business owners.

All nine are staffed by a full-time

director and assistant director, business school professors, and MBA students. They operate like management consulting firms and draw on the services of the full university system.

"This program uses the diverse professional resources available at most universities for the benefit of small business," says Donald H. Driemeier, dean of Missouri's school of business. "It calls upon the school of business administration, and to a lesser extent, the schools of engineering or technology, to apply their expertise to the productivity and management problems of small businesses."

Generally, small businesses that seek help from the centers gross under \$1 million annually, employ very few workers, and cannot afford professional consultants.

"We are not even touching the upper end of the small business scale," says David M. Ambrose, director of the center at the University of Nebraska.

for Small Businesses



Lederhosen-clad Jim Held and family use the age-old method of stomping grapes to promote the newly christened Rose Montaigne and Light Rose wines. The St. Louis center helped Mr. Held stage an August grape festival in Hermann, Mo.

"These are owners of very small businesses whose only source of record-keeping is usually just a checkbook.

"The MBA student or business professor can spend five to ten hours researching the owners' problems or helping them set up their books. Such work may be equivalent to \$200 of a professor's annual salary, but it would cost \$750 to have a private consultant do the same work."

In some cases, the small business owner seeks help from the center on his own. Sometimes the Small Business Administration refers a case to a center. Each case is handled by one or more MBA candidates under the supervision of the center directors.

Already in trouble

In 1977, an SBA survey of 300 businesses that used the centers showed: 90 percent were better able to identify their problems; 77 percent had made changes in their operations as a result

of advice; 70 percent reported an increase in gross sales; 60 percent indicated a reduction in the cost of doing business; 64 percent had improved profitability; and 27 percent had increased the number of employees.

At the University of West Florida, MBA candidate Claude Hale says: "At first, small business men and women wouldn't come to us until they were already in trouble. Now they're coming in earlier because they know they need to develop certain skills to manage their businesses.

"We handle them very gently," he adds. "We get off the academic language and break them in slowly."

Carl G. Oberle, one of 21 MBA students working in the St. Louis center, says: "We are not social workers. Social workers will take people by the hand and help them. We don't. We just give them the tools to help themselves."

By the time Chester Laycob realized

that his company, Midwest Handbag Co., needed help, it was already too late. The year was 1973, and he was on a buying trip in Europe.

"All over—Paris, Rome, and London—I saw a lot of goods that had been made in the Orient where labor is very cheap. I lost a fortune trying to compete against cheap labor and cheap foreign imports."

Too poor for Harvard

Mr. Laycob remembers other bad times. During the 1930s, business was so poor that his father couldn't afford to send him to Harvard.

Instead, Mr. Laycob spent two years at the University of Illinois where he worked his way through by sweeping floors in warehouses and speakeasies owned by Al Capone.

But the times were never so dismal as between 1975 and 1978. After liquidating his \$1.5 million business and paying laid-off employees with money received through the Trade Recovery Act of 1974, Mr. Laycob spent the next year and a half trying to relocate the business or start a new one.

Finally, he petitioned the Commerce Department's Economic Development Administration for help.

"I told them the story, that I was very unhappy and wanted to put my firm back in business," he recalls.

"The EDA people then handed me forms to fill out and told me to do this and that. At that point, I knew it would take me two years just to complete all the paperwork. I just didn't know how to tackle it."

Doors reopened

That is when EDA referred the Midwest Handbag case to the St. Louis center. There, the director, Lindell Phil Chew; the client services director, William Dowley; and several others developed a marketing plan and a personnel study. They also secured a \$662,500 loan from EDA. The company reopened its doors in June, 1978.

"At that time, I didn't even have a piece of thread in my plant," says Mr. Laycob. "Today you should see the factory. But if it weren't for the people at



Out of 500,000 small businesses that start this year, 400,000 will fail, says Dr. Patricia Burr, assistant administrator of SBA.

the center, I would be broker than broke. I would have nothing. This group put Midwest Handbag over; without them it never would have happened."

At age two, the centers are much like nine children born of the same parents—the Small Business Administration and the academic community. All are very independent, with distinct personalities and operating methods. Yet they share the common purpose of strengthening the economy by helping small business survive.

Business networks

Some centers are tied into a full state network of professional business men and women, and often combine their efforts with retired executives groups and chambers of commerce to help the small entrepreneur.

"In Missouri," says Mr. Chew, "we have in place across the state 17 business, industry, and labor specialists who cooperate with the University of

Missouri extension division. And they serve in areas that are remote from any of our four campus centers.

"In other words, our ability to offer one-on-one counseling, training, secondary data search, and computer applications to small business at no cost is possible through our statewide network."

The University of Nebraska at Omaha and the University of Georgia in Athens also support a statewide counseling network, while the University of West Florida, Rutgers University, and the University of Maine work within a multicounty region. In California, Chico State University serves the rural north, and California Polytechnic State University caters to the industrial south. The center at Howard University in Washington, D. C., is just getting started.

Patricia L. Burr, SBA's assistant administrator for management assistance who is in charge of the centers, says that the choice of center sites was

A Real Live Learning Experience

There is nothing make-believe about the Small Business Development Centers. The MBA candidates who work there are more than ready to take on the real world.

Says Christopher J. Gaia, an MBA candidate at the St. Louis center: "It is an excellent learning experience where we apply what we learn from actually solving the problems of small businesses to the textbook theories we learn in the classroom."

Mr. Gaia's learning experience came from the century-old Stone Hill winery just outside St. Louis in Hermann, Mo.

Owner James Held made excellent wines, explains Mr. Gaia, but they had a funny name—Gasconade White and Pink, named after the river that flows by the winery—a screw cap instead of a cork, a cheap price, and lousy retail space.

Mr. Gaia and several other MBA students researched the market diligently. They then developed a promotion campaign, redesigned the bottle and labels, increased retail prices, and changed the name to Light Rose and Rose Montaigne. Not only have sales increased dramatically, but Mr. Held's wines will be fea-

tured on Ozark Airlines beginning in March.

"Having an MBA and knowing how to use it is the difference between reading a book about playing tennis and actually getting out on the court," says Mr. Gaia.

"Most of us at the center could be working part-time for major corporations and making twice the money," he adds. "But the practical experience we are getting here is twice the experience we would get in private industry."

Most MBA candidates working in the centers agree that to be effective as quasi-professionals, they must show a great deal of self-confidence and self-discipline.

"The center's working conditions are very unstructured," says Linda H. Stone, another St. Louis MBA student. "You must have the discipline to carry a normal case load, get the work done, and handle class work."

"Likewise, you must have self-confidence and be able to think and talk like a business person."

"If you go into a business meeting thinking of yourself as a student, you will come across like one. But if you believe you can do some good for

this person as a consultant, it makes a world of difference."

Occasionally, clients will try to take advantage of the free help they are getting from the center, Mr. Gaia admits.

"We have turned down cases where it was obvious that the business didn't have any overriding problems but thought we were just a source of free labor."

"On the other hand, some clients have had an attitude of 'let the kid take a crack at it.' In that case, you had better have done your homework so that you will be able to come right back at them with what they don't expect to hear."

Mr. Gaia says that students learn to do things better at the centers. "You can make a mistake and it is not detrimental because you have the backing and assistance of the center director as well as the professors," he says.

"The first or second time you make a mistake, you feel like a fool, but you learn not to make it again. And, of course, the other end of the stick, and the ultimate purpose of this whole program, is that small business is getting the help it really needs."

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"It takes a few large companies and 7,000 small businesses to build a spaceship," says a poster in the St. Louis Small Business Development Center. That motto epitomizes the attitude of the hundred or so men and women either employed by or managing the nine centers that help small enterprises survive financial or management hardships.

It is not difficult for a small business owner to get in touch with one of the centers.

They are associated with the following universities: California State University at Chico; California State Polytechnic University in Pomona; University of West Florida, Pensacola; University of Georgia, Athens; University of Maine, Portland; University of Missouri, St. Louis; Rutgers University, Newark, N.J.; University of Nebraska, Omaha; and Howard University, Washington, D.C.

"Most inquiries come in on Monday mornings," says Donald Clause, manager of the western region center at the University of West Florida. "Over the weekend, a couple has time to discuss a possible business venture. Then they'll call on Monday with questions on how to go about it. Inquiries dwindle as the week progresses."

"We reach 23,000 businesses every month," says David Ambrose, director of the center at the University of Nebraska. "We are decentralized through the local chambers of commerce and have full geographic coverage. We obtain much better results than if we were to do it all from Omaha."

In addition to general counseling and management assistance, each center specializes in problems faced by its particular small business population. For example, the University of

Maine center focuses on improving the state's timber industry, while Rutgers University's center concentrates on the inner-city decay problem. The University of West Florida is looking at how small business can benefit more from the tourist industry.

All centers are staffed by a full-time director and usually several assistant directors as well as the MBA candidates who are paid by the hour.

"The MBA," says Allan Cowart, director of the West Florida center, "has the time and resources to research a problem. If the graduate student is stymied by a problem, he or she can go to a professor who will help."

"I think you will find that those working for the centers feel very needed," says Robert G. Poe, Jr., an MBA student working in the St. Louis center. "Small businesses have confidence in our ability."

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based on specific geographic, demographic, and economic profiles of the small business population. Some universities already had a small business service program in place before being selected.

Initially, SBA provided \$350,000 as seed money for the centers. Last year, President Carter vetoed a bill that would have authorized \$60 million for all state management assistance programs, including the centers.

SBA has \$8 million authorized for such programs in fiscal 1979, and the centers will have to compete with other state programs for federal funds. The centers also receive some state funds and contributions from private institutions and foundations.

Not everyone agrees with the operation of the centers and many business groups will not comment on their effectiveness until an SBA-contracted study to evaluate the pilot program is completed later this year.

Joseph J. Brady, executive vice president for the Association of Consulting Management Engineers, Inc., says that any legislation providing federal funds for the centers should establish criteria to exclude the larger small

businesses from taking advantage of the centers.

He also believes that eligible businesses whose problems are diagnosed by the centers should be given the choice of using center staff or a private consultant, who would be subsidized by center funds.

More sophisticated

Dr. Burr of the SBA replies: "The truth is that more small businesses are probably referred to consultants than they will ever realize. The centers provide threshold training and counseling. They take businesses as far as they can, and then they have to say: 'We've given you all the help and skills we can. Now you need someone more sophisticated.'

Rudy Bray, who makes 1,200 heart-monitoring devices annually and grosses \$65,000 in sales, says his business would be nowhere near that mark without the help he received at the University of West Florida center.

"I couldn't afford to hire a private consultant," says Mr. Bray. "I would have stumbled along, relying on my friends' advice. It would have been a haphazard way of running a business."

He took one friend's advice and contacted the center. Two MBA candidates helped him develop business objectives and procedures. They also set him up with a needed loan package and an accountant to monitor the business.

How viable are the centers? Last year, the University of Maine spent \$25,000 on one case alone.

"But that business," explains Frederick Greene, Jr., director of the Maine center, represents \$1.5 million in gross sales, of which about \$1 million stays in the state. The economic impact is probably twice that amount. All that would have been lost if the business had gone under. Instead, it cost only \$25,000 to save a few million."

Aside from the economic factor of helping small businesses survive, there is a personal psychic satisfaction, says Mr. Schmidt of Chico State. "You put a small business back on its feet, and the owner comes in and tells you, 'I'm sleeping nights for the first time in months because of your help.'

"That kind of job fulfillment is great," he adds. "I believe in the program so much—sometimes I think I'd work for nothing." □

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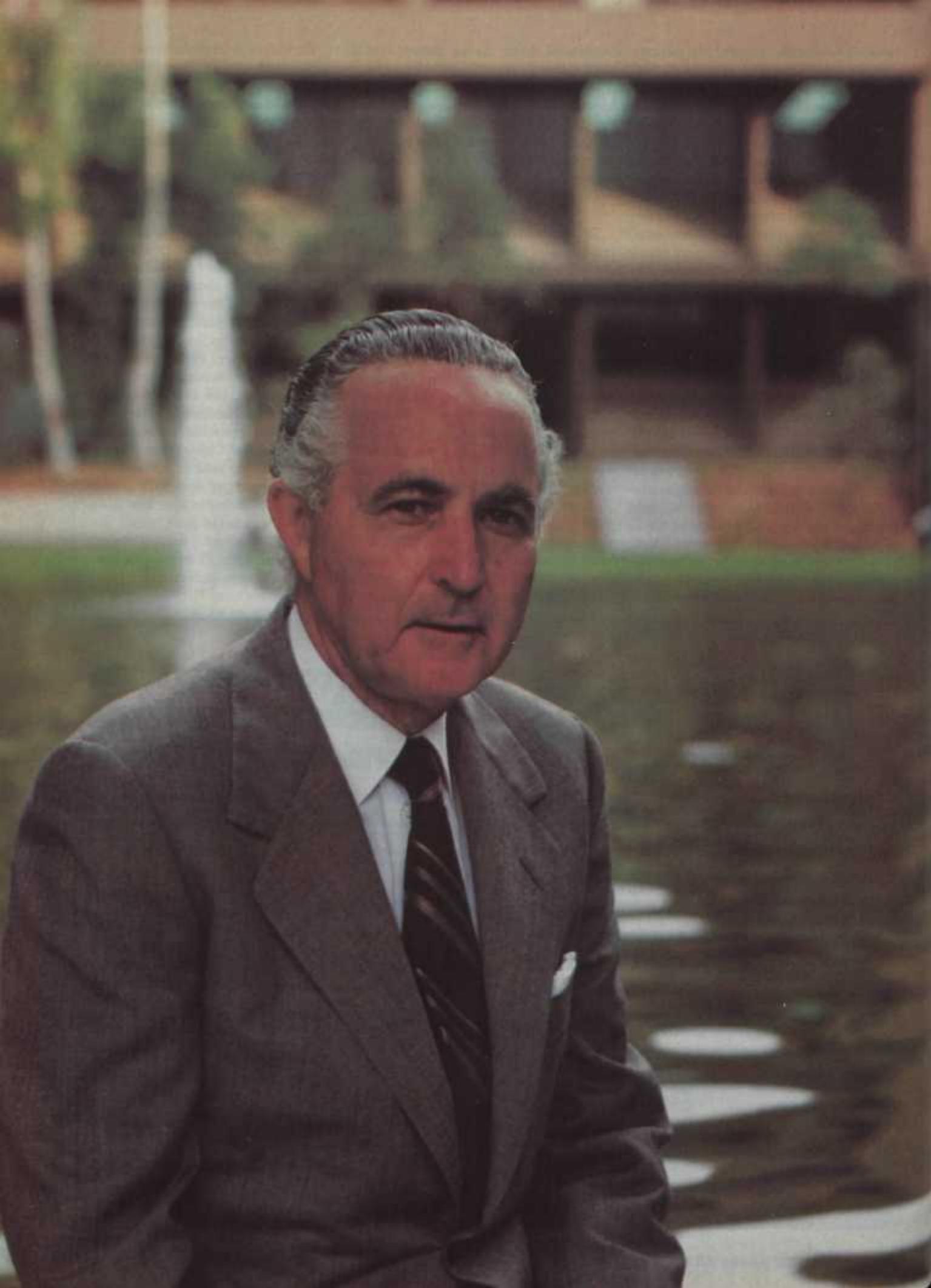
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How One Young Man and a Little Company Grew Up to Be a Giant

By Wilbur Martin

MISTAKES are a sign of action and movement," R. J. Munzer once said, "and are necessary and inevitable in business. But living with mistakes is a sign of stupidity."

The 60-year-old, soft-spoken chairman and chief executive officer of Petrolane, Inc., grins when he says: "Sure, I've made my share of mistakes."

But he didn't live with them, and in the 23 years since he became president, Petrolane has grown from a small, single-product, Los Angeles area firm with \$9 million in sales to a diversified energy company with a billion dollars in annual sales and operations in 44 states and overseas.

Profitable subsidiaries

Petrolane is a giant of the industry dealing with liquefied petroleum gas—popularly known as LP-gas.

But it also has highly profitable subsidiaries including petroleum services—with oil and gas well drilling rigs, oil field tool rentals, directional drilling supervision, marine services for offshore drillers, grocery supermarkets, and retail tire and repair stores. Half of its income is from petroleum services and the other half is about evenly divided between LP-gas distribution and consumer product marketing.

Such diversity stems from the fact that Petrolane is acquisition-minded.

"We simply took a look at what we are and what we think we can do best," says Mr. Munzer. "And what we

are is a marketing company. What we do best is sell."

Petrolane has increased annual earnings in an almost unbroken string over the past 20 years. Mostly because of its acquisitions, it is the largest single company in the LP-gas distribution industry, which is still made up of thousands of small companies serving 13 million users.

Liquefied petroleum gas emancipated the rural areas of America with a clean, inexpensive fuel for people who lived far from city gas lines. But in the postwar explosion of suburbia, outlying residential areas and industries became prime users of what is often called the fourth primary fuel—after oil, natural gas, and coal. Now, LP-gas is used extensively within cities and towns.

A by-product of oil and natural gas, propane when put under pressure turns into a liquid, which can be shipped or stored until needed as a gas.

Oil and methane, known as natural gas, were the primary fuels for the big oil and gas companies, and they were willing and happy to sell the other "anes"—propane, butane, and ethane—to anyone who wanted to market them.

It was through a merger that Rudy Munzer came to Petrolane. He had started his career in LP-gas as vice president of the Andrews Co.

"Don't make a big deal of that," he says. "Remember, there were only three people in the company at that time." In 1954, the company, also lo-

cated in the Los Angeles area, merged with Petrolane. Two years later, Mr. Munzer was running the show as president.

"We had a product," says Mr. Munzer of the LP-gas company he helped form, "and a market. And that was my job."

Marketing was Mr. Munzer's forte, and "in the early days of marketing LP-gas, we literally had to knock on doors."

Replacing cylinders

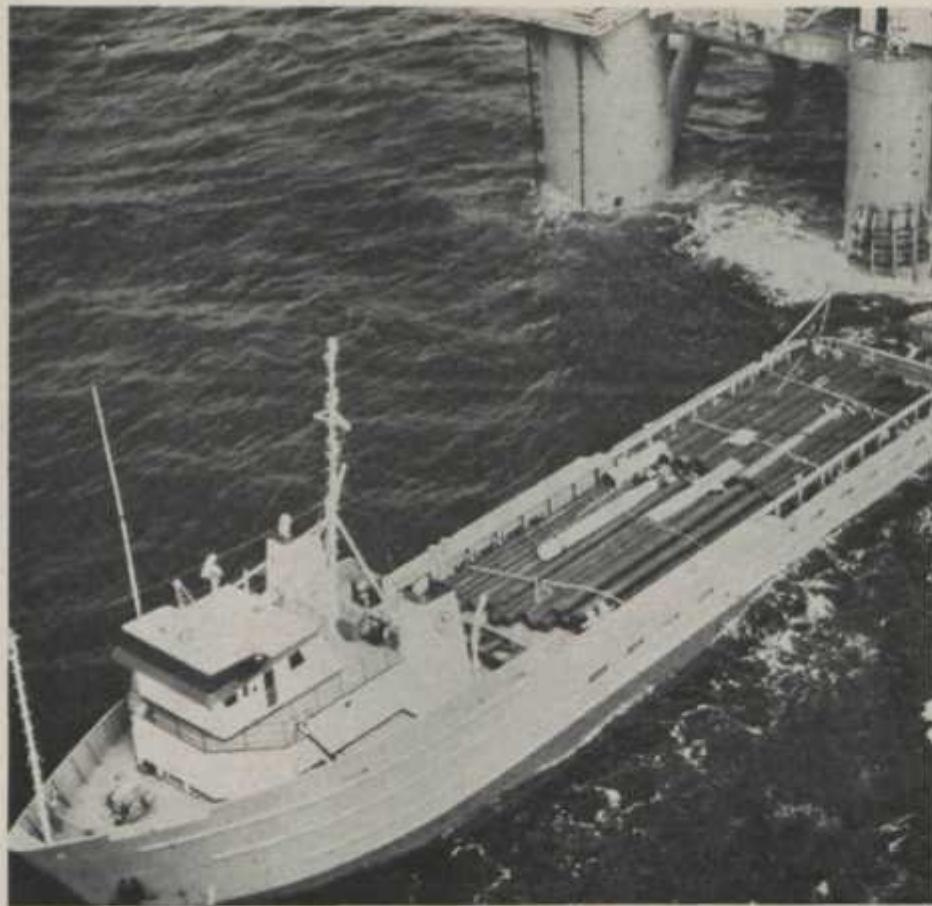
Petrolane's early growth resulted largely from the technique of giving the customer tanks that could hold several months' supply. Historically, the primary distribution method for LP-gas was to deliver a cylinder to a customer, then replace the empty cylinder with another.

But that changed as large bulk supply tanks opened up industrial potential. "It is just like delivering gasoline to a filling station. We truck it to the customer, and he has several months' supply on hand. Then the truck comes back on schedule."

In the late 1960s, the company started diversifying.

"I think the best decision we ever made was to expand our marketing and service base, going into petroleum services and consumer products such as the Stater Bros. supermarket chain, the Mark C. Bloome tire stores, and other areas."

The worst mistake, he says, was probably the decision to go into the



While Petrolane does not produce the LP-gas it markets, it does provide services to the petroleum industry. The Seahorse fleet hauls supplies to off-shore platforms, and the Brinkerhoff Drilling Co. is one of the largest contract drilling firms in the West.



agricultural chemical business "right at the time everyone else was going into it. The market collapsed because of the oversupply. We didn't live too long with it; we got out."

In an interview with a NATION'S BUSINESS editor, Mr. Munzer talks about his company, his industry, business in general, and the challenges he sees ahead for all three.

How did you get into the LP-gas business?

It wasn't by long-range design. After graduating from Stanford University, I joined the Navy and spent World War II in the Pacific, mostly on a destroyer escort. A good friend of mine in the same squadron was Leonard Andrews. His uncle, Bill Andrews, had been in the oil business and had been approached by a subsidiary of Santa Fe Railroad to market their butane and propane, which right after the war was just a by-product and really a drag on the market.

Mr. Andrews asked Leonard to join him in a little LP-gas company. Leonard knew I had nothing definite in mind so he invited me to join up, too.

So you really started from scratch?

You might say the whole industry started from scratch. LP-gas came into being in the 1920s, limped along in the 1930s, and came to a screeching halt during World War II when there was no metal to fabricate tanks.

So really, the LP-gas industry didn't take off until after World War II. The product was a spin-off of the oil and gas industry, and nobody in that business thought too much of it.

Then your first company didn't produce its product?

Oh, no. The Andrews Co. was a marketer. Basically, so is this one. So are most companies in this industry.

We had a source of product. Our job was to market it. LP-gas is a clean, dependable fuel, and it is available at any location.

A very good characteristic of our business is that it is a people business. We aren't dealing in things. We have very few proprietary items. We don't have anything that somebody down the street doesn't have.

We do what we do very well because

of our people. People working with people.

Then you look upon your managers as generalists?

I look at this company as a generalist.

Rural areas were obviously the first market for LP-gas?

Yes. But we went after industrial consumers, too. I think one of the things that made us successful was our marketing approach. We looked at delivering LP-gas the same as you would deliver gasoline or oil.

In the beginning, the supplier would take a cylinder out to a customer, pick up one for a refill, and then return it.

We used a bulk tank. Take a tanker truck out to the customer's place, pump in 500 gallons or so, and he would have a three or four-month supply. This made the cost competitive with other fuels.

Why did Andrews merge with Petrolane in 1954?

Petrolane was the big company in LP-gas in the area at that time, a very,

very fine company which was run by P. E. Foote. This is a highly capital intensive business, and Mr. Andrews, our president, felt a merger would be beneficial to everyone concerned. I became vice president of marketing after the merger.

Two years later, Mr. Foote resigned because of poor health. The name of the game in this business is marketing, so since I was the marketing man, they moved me up. Another happenstance.

Did Petrolane have a formal growth plan?

No. Instinct and desire, those were the things that moved us. The *modus operandi* we followed wasn't all that unique, and every other company which has reached any size in this industry has followed the same pattern. It was acquisitions. We acquired a lot of smaller companies, and in our overall operations today we still are acquisition-minded.

But we didn't have any formal blueprint. We just knew that we were in a good marketing position, and we had confidence in ourselves. That, I think, is the key to success. Having confidence in yourself.

Why did you decide to diversify into entirely different fields?

We have always considered ourselves a marketing and service organization. We customarily took a product produced by somebody else and developed or encouraged a market, bringing that product to someone who needed it.

In the early 1960s, we realized we could really sell anything if it fit the locations in which we were operating. Our bag was marketing; we understood that function, regardless of the product.

So our expansion came in other areas of marketing. This was particularly true in getting into industries which were fragmented, where there were a lot of small companies, where we could use our acquisition skills.

As I said, LP-gas is a highly capital intensive industry. You can get money for capital by selling more stock, by cutting the pie up in more pieces. But this really isn't in your existing shareholders' interests.

Another way is to acquire companies with good growth possibilities to generate cash which can be used throughout your operations.

This is why we went into the petroleum service industry and consumer products.

There was some skepticism about

our effectiveness in consumer products. But we knew we could sell anything.

It was a good decision. It added to the foundation, financially and otherwise. It enabled us to take a giant step forward. Today we are a billion-dollar company, one of the largest 500 corporations in the nation. It has all dovetailed nicely.

Have all your decisions been winners?

No, indeed. You can't stew about a decision once you've made it, but you don't have to live with it, either. One idea we had that didn't turn out well was the agricultural chemical business.

In 1965, we thought this would be a natural expansion, and so we went into anhydrous ammonia. About this time, everybody else thought it would be a good idea to get into this business. A great oversupply developed, and the market collapsed. We got out.

You have been called your own best devil's advocate. Are you?

I don't know if I would put it that way. I am basically an optimist. I believe you should always be positive. But I also want to be realistic, and I do want to explore every aspect of a situation, the negative as well as the positive.

The supply of energy is a constant question. What is the outlook for LP-gas?

At the moment, on a worldwide basis, we are inundated. But you have to remember this is a much broader question. Whenever you are dealing with a finite resource, there is an end to the supply at some point in time. When that point will be reached, nobody is quite sure.

Looking at the question of energy supply is like looking at an elephant from different ends and trying to describe it. There are large differences in viewpoint that can be resolved only by adopting a broad perspective.

There are many factors involved in this question. Consumer reactions are unpredictable. Government policies have a major bearing. The supply of energy is a global question. Practically no country is in balance. Some either overproduce, such as most of the nations in the Middle East; others will always need more than they produce, such as Western Europe, the U. S., and Japan.

My own view is that we will never be



able to disassociate ourselves economically from the rest of the world and say we are self-sufficient in energy.

How much does the uncertainty in government regulation affect your company's planning?

Our management is constantly influenced by the superimposed requirements of the government, in paperwork and otherwise.

Government is in many areas which it has no business being in. Allocation of LP-gas is one. Right now, you have gluts in the world, and there is no need for allocation. Another is price controls, even though we're in a competitive market where most petroleum products, because of marketplace pressure, are selling below government-approved ceilings.

One thing is for certain: Energy is an emotional issue. I think it is more emotional because of the political overtones.

Do you anticipate a growth in your industry's share of the fuel market?

Yes, not only for the industry but also for our company. I see a sizable

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What about your personal life? How do you relax?

Oh, I have a lot of hobbies. I play a little golf and a little tennis. We have a grove, with avocados and lemons.

And my three children are all pursuing careers. Dan, the eldest, is a businessman in Arizona; Bill is a geologist with a major oil service company, and Anne has her master's degree in special education. She works with autistic children.

Plus, I have some political interests.

Such as?

Business people should give serious thought to taking an active part in the political process.

I think they have to. I don't think it is a partisan deal when business tries to make its position known. In our case as a company, it's basically to inform the public and our shareholders about the implications of some of the issues.

What do you think is the biggest challenge business faces?

Oh, government. The involvement of government through regulation and the impact of governmental policies on business. It is an adversary relationship to some degree now. I think business must work very hard to try and sell the kind of attitude that prevails in Japan—where the businessman is not looked at as an opponent but as the vehicle to accomplish a national end.

Do you think you could do as well starting out today as you did in 1946?

I doubt it. Looking back, I think certain things were accomplished because of some luck, a lot of nerve, and a certain amount of coincidence.

I don't know how I would have progressed if I had started with a company the size of Petrolane today. We both sort of grew up together.

Maybe today I would start out with some filling stations, something to grow with. If you don't grow, you're frustrated, unhappy. At least that's the way it is with me. At heart, I'm a proprietor, an entrepreneur. □



To order reprints of this article, see page 64.

Champions of Small Business Cross Swords on Some Issues

While Sen. Nelson and Rep. Smith agree on basic principles, they have different priorities and timetables for legislation in the 96th Congress

SMALL BUSINESS's best congressional crusaders are campaigning for some different causes in the 96th Congress and on different timetables.

While Sen. Gaylord Nelson (D-Wis.), chairman of the Senate Small Business Committee, looks toward 1980, his counterpart in the House, Rep. Neal Smith (D-Iowa) believes that 1979 is the time to act legislatively.

"The major issues in the 96th Congress," says Sen. Nelson, "will come into focus after the White House conference on small business next January. I imagine that if the state conferences are run right, and if they have a good conference here in Washington, then an agenda of priority items that affect small business can be agreed upon."

"Based on that list, I would think that in 1980 and well into 1981, we're likely to see a fair amount of legislative activity."

Relaxed and informal in his Capitol Hill office, Sen. Nelson fiddled with a pair of long, narrow scissors as he named the most important result he hopes will come out of the White House conference: reduction of governmental paperwork and red tape, regulation, and taxation.

Disappointing turnout

Rep. Smith, on the other hand, has been monitoring several state conferences and believes that unless there is drastic reorganization in the way they

are being run, nothing will be accomplished at the White House meeting next January.

"We just can't put that much emphasis on the outcome of the White House conference," says the chairman of the House Small Business Committee.

"The state conferences are not being run effectively. They are not only disorganized but also ill-publicized, and the small business turnout has been very disappointing. We can't put that much stock in legislation that could come out of the 1980 meeting. The time to act legislatively is now."

Often overlooked

There is some common ground between the two committees, however. Both chairmen believe that small business owners are forced to operate under unnecessary governmental regulation and paperwork. They also agree that the small business man or woman is often overlooked or forgotten by Congress and the administration.

Things will change in the years ahead, they concede. Congress will become even more sympathetic toward small business problems . . . the cracks in the legislative process will be filled in . . . fewer small business problems will slip through the congressional floorboards.

"Small business has tremendous political support in Congress and in the country," says Sen. Nelson. "In the

past, everything we've proposed legislatively for small business has been very well received. That will not change; it will intensify."

Such support accounts for the substantial share of benefits small business reaped from the last Congress.

The new tax law, for example, en-

Sen. Gaylord Nelson (D-Wis.) says that helping small business is becoming a legislative priority. Until now, he says, they've been called "the forgotten breed."



PHOTO: PAUL CONKLIN

sures that businesses with earnings between \$50,000 and \$75,000 receive the largest reductions on the graduated rate scale. It also liberalizes tax treatment for losses taken on small business stock and reforms provisions regarding product liability and Subchapter S corporations.

Both Senate and House committees will again consider a major small business bill like the one vetoed by President Carter last year.

That bill, says Rep. Smith, contained much of what small business needs—a stronger voice for the Small Business Administration's counsel for advocacy, more money for expansion of the small business development center program, and federal funding of the state-run conferences preceding the White House conference.

Essential elements

While the House committee will consider the bill in a modified omnibus form, sidestep hearings, and take it quickly to the House floor, the Senate will concentrate on the bill's essential elements and may break the bill into several parts or eliminate sections to which the administration objects.

Congressional leaders are well aware of the commitment by President Carter to have some programs in place before the White House conference.

To further that plan, Sen. Nelson says he will reintroduce a bill that would require all agencies and cabinet-level departments to establish a flexible, two-tier regulatory system, with

Structuring Minority Assistance

The Commerce Department has done some shifting of fiscal 1979 money to provide up to \$122 million in federal funds for projects directed at minority groups, firms in which more than 30 percent of employees are minorities, or minority neighborhoods.

This represents a more than 50 percent increase over the funds now used by the agency to aid minority groups. The program, to be administered through the agency's Economic Development Administration, will target its assistance to three areas:

- Grants, loans, and procurement arrangements and technical assistance to business firms owned by minority groups;

less stringent regulations geared toward small business.

Two other bills will be pushed: One would mandate that all federal agencies reduce paperwork; the other would require that the federal government pay all legal fees of the small business owner who prevails in a dispute over compliance with regulations.

In the House, meanwhile, Rep. Smith's committee will consider a measure that would ease regulation of small business by requiring that each federal agency issue a statement detailing how its regulations would impact small business or establish the Senate's two-tier regulatory system.

Regarding taxation, Congress is likely to explore the possibility of deferring the tax on dividend reinvestment; continue the restructuring of the corporate tax rate system; and look at the provision of additional tax relief for unincorporated businesses.

Another issue that will receive considerable attention is government procurement procedures.

According to congressional figures, small business receives about 3.5 percent of the \$20 billion research and development contracting program. Congressional sources maintain that research and development contracting will be included in some form in the small business procurement program.

In addition to legislation, both committees will conduct oversight hearings into SBA's minority loan and contracting programs.

"Over the years there has been very

- Assistance to local governments, community organizations, and businesses involved in programs that significantly benefit minority groups;

- Employment criteria to help program participants provide more employment for minorities and to foster minority business development.

Robert T. Hall, assistant secretary for economic development, says the program includes a special effort to aid American Indian community and economic development.

Of the program, he says: "We are going to give better targeted assistance."

"Before we were doing things by happenstance. Now we're adding the structure."

little oversight of SBA," Sen. Nelson says. "Now it is time for SBA programs to be looked at; they have substantial problems, and I think there will have to be substantial reorganization."

One possibility both chairmen mention is merging all small business functions in the Commerce Department with SBA. Less likely is the proposal to place SBA functions in the Commerce Department or another agency.

Additional staff

In any event, the desire of some congressmen to disband SBA will probably not be considered too seriously. Both Sen. Nelson and Rep. Smith believe that the agency should receive additional staff to help solve the problems in the contracting and loan programs.

"SBA has not increased the number of personnel handling loan programs in the past ten years," says one SBA source, "but the case load has grown five times in that same time period."

"So we find ourselves facing a situation in which the President wants a more streamlined government with fewer bureaucrats, and Congress wants just the opposite," the source adds.

Furthermore, SBA expects to have about the same amount of money to spend in fiscal 1980, so some internal reordering of priorities is necessary.

One program the agency would like to lose altogether is its farm disaster lending authority. Sen. Nelson and the administration concur.

"I think it's a serious question that



The major issues in this Congress, says Rep. Neal Smith (D-Iowa), will be passage of legislation similar to the small business bill vetoed last year and tax relief.



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- 10:00 a.m.-2:30 p.m. National Chamber Exhibits and Displays
- 4:00 p.m. National Chamber Reception

MONDAY, APRIL 30

- 7:00 a.m. * Monday Breakfast: "Small Business—Big Clout"
- 9:15 a.m. First General Session: "Constructive Action for a Progressive Future"

12:00 noon Four Concurrent Luncheons (choose one)

- Tax Policy: Help or Hindrance to Investment? Getting Government Off Our Backs: Regulatory Reform
- Strengthening Business Political Action Guess Who's Coming to Your Board Meeting: The Federal Threat to Corporate Management

- 2:30 p.m. Second General Session: "Global Outlook for the 80's"

* Evening Congressional Dinners/Receptions (for details, write National Chamber. Ticket prices arranged by state chambers and associations.)

TUESDAY, MAY 1

- 7:40 a.m. 67th Annual Meeting Breakfast: "The Values of America"
- 9:45 a.m. Concurrent Special Sessions (choose one)

- Governmental Administration of Wages & Prices Labor, Management and the 96th Congress Small Business Exports—A World of Opportunity
- What Chambers Must Know About the Law World and U.S. Business Outlook

- 12:00 noon General Luncheon: "The Inflation Fight: Three Views"
- 2:30 p.m. Third General Session: "The Impact of Individual Action on Public Policy," former President Gerald R. Ford
- 6:30 p.m. "The Gala": Annual Reception and Dinner

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ought to be looked at," he says. "I'm not sure whether SBA should be administering farm money at all."

Mention this possibility to Rep. Smith, however, and he bristles. "I do not think it is right to discriminate against the farmer as a small businessman," he says tersely. "I would not condone any such legislation."

Different story

Other issues that could cause rifts in House-Senate cooperation include whether to lengthen the maturity of regular business loans and to extend the secondary loan purchasing market.

Overall, small business should have a somewhat productive session with the passage, in some form, of the omnibus small business bill and other odds and ends from last year. However, 1980 could be a different story.

As one White House policy aide explains: "There will be a trade-off between 1979 and 1980 legislation. What small business doesn't get the first time around, it's bound to more than make up for in the second congressional session." □

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Source: U.S. Department of Health, Education, and Welfare



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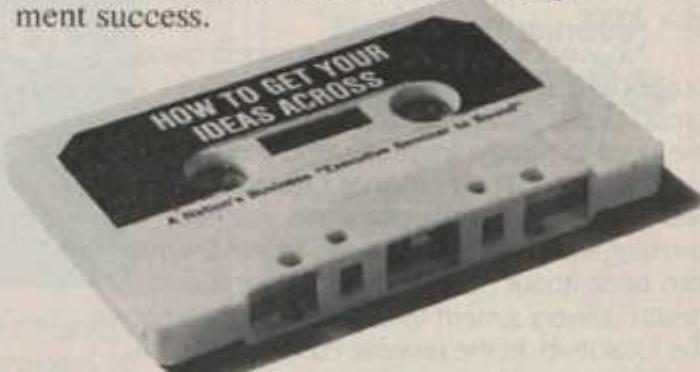
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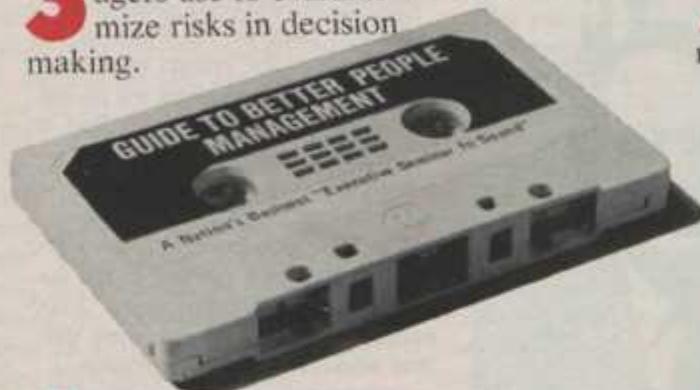
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Minimum Wage Hike Maximizes Problems

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*Paul L. Aikin, Owner
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Laguna Beach, Calif.*

For years our company has employed one or two teenagers on a part-time basis. We could not afford to pay \$2.65 an hour when they were busy less than half of the time. As a result, two part-time jobs have been discontinued.

*Jack Austin Crabbs, President
Austin Crabbs Furniture
Davenport, Iowa*

We will lay off one third of our employees who are now drawing the minimum wage when the next increase goes into effect on Jan. 1, 1979.

*Mona Roush, Secretary/Treasurer
Crossroads Supermarkets, Inc.
Magnolia, Ohio*

WORK CUTBACKS, layoffs, closings, price increases—these are the results of the minimum wage hikes according to business people across the nation.

Readers who responded to the December Sound Off to the Editor question—"Should the minimum-wage hikes be delayed for two years?"—spoke personally of the impact the increases would have. Their responses were overwhelmingly in favor of delay.

Last month, the federal minimum wage rose from \$2.65 to \$2.90 an hour. In two more phases, it will increase to \$3.35 by 1981.

Small business owners especially are concerned about their ability to handle the increases in labor costs. They warn that unskilled and teenage workers would bear the brunt of the cutbacks.

"It's cheaper to pay overtime to experienced help than to hire an untrained person at the higher minimum wage," says John Hoppe, president of Vacumetrics, Inc., Ventura, Calif.

More Teens Out of Work in Smalltown, U. S. A.



Milford, Ohio, is a village of just under 5,000 people. Wayne D. Florea, president of the Milford Area Chamber of Commerce, describes it as a

"thriving enterprising community." But even here in the heart of the Miami Valley, the impact of the current minimum wage hikes will be felt.

Already two stores have had to close because the owners could not afford the help they needed to run their businesses profitably, he says.

The 300 businesses in Milford and the two shopping centers in the surrounding area employ about 3,000 people. One third of them are part-time workers. Many are students.

An informal poll of the local chamber found that most members definitely would not be hiring and, in fact, would be laying off young workers.

If Milford, Ohio, is typical, the minimum wage hikes will provide a lot of teenagers in Smalltown, U. S. A., with a lot more free time.

"The result," he adds, "is no training for unskilled help."

J. E. Hamm, account executive at Adams, Hamm, Mulcahy, Inc., Spokane, Wash., expresses much the same view. He is "very concerned about people who are looking for their first jobs, especially kids. With the minimum wage increase, a lot of kids will not get hired, will not get experience, and consequently will not have anyplace to go."

"We have a small business which employs mostly part-time workers," reports Kenneth R. Tumey, president of Star-Brite Sales, Inc., Saginaw, Mich. "We are also involved with the high school co-op program. The increases in the minimum wage will force us to lay off people or cut back hours."

Michael L. Vizza, president of Vizza Enterprises, Inc., and owner of Cabin Kitchen Restaurant in Emporium, Pa., says frankly: "It is financially impossible for me to pay my people \$2.90 an

hour. I will have to lay off quite a few employees."

Another restaurateur, Robert D. Torson, who runs a McDonald's in Loveland, Colo., agrees that the minimum wage hikes should be delayed for two years.

"There is no other single element that affects our prices more than the minimum wage. And it hits in two waves. First, in labor costs and then, one or two months later, in increases in food and paper costs. I have no recourse but to increase prices."

While almost all who responded were in favor of delaying the wage increases, a few readers supported the hikes.

Don Adams, owner of Transport Services, Santa Clara, Calif., says: "I would rather pay a livable wage to someone who wants to work than pay more taxes to support socialized laziness."

John M. Patrick, a warehouseman at Alltan, Inc., Morgantown, W. Va.,

asks: "Have you ever tried to make ends meet earning the minimum wage? I have, and it is next to impossible. Perhaps the rates of the increases are too large, but the January increase is less than the rate of inflation."

"Individuals with higher incomes should have pay increases held back," says Larry McKinley, vice president of Bill McCann, Inc., Austin, Texas. "Why should people at the bottom of the pay scale have to carry such a heavy burden to slow inflation? They need pay increases more than others."

Representative Doug Barnard, Jr., (D-Ga.) feels that the increases in the minimum wage serve only to fan the fires of inflation—adding an estimated 0.5 percent to the annual rate. He plans to introduce a bill this year to delay the next hikes for two years.

According to Donald R. Zimmer, publisher of the *Pierce County Leader*, Pierce, Neb.: "The increased minimum wage is a disaster to thousands of small husband-wife businesses whose owners are literally working themselves to death because they cannot afford the higher wage scale."

"We are being forced out of farming because of increased labor costs, in-

creased social security, and higher costs of everything we must buy," says Kathleen Tobiasson, a partner in Wendell Tobiasson Farms, Cottage Grove, Oregon.

"How can anyone in Washington understand enough about my business to tell me how much to pay my employees?" questions Mrs. Billy Thompson, owner of Thompson Bros. Co., Memphis, Texas.

"The economy in any farming area fluctuates so much from year to year that we do not know what to expect."

Many business people saw the minimum wage increases as undermining worker productivity.

"In a retailing environment, the major lever to increased productivity is through sales-related incentives and commissions," says John V. Sandlin, vice president of American Handicrafts/Merribee Needlearts, Fort Worth, Texas.

"Forced hourly rate increases only increase costs and do not contribute to increased productivity. In fact, they dilute the effectiveness of sales-related commission plans."

Douglas E. Pease, vice president of administration for L'eggs Products,

Inc., Winston-Salem, N. C., thinks that not only should the wage hikes be postponed but that a two-tier minimum wage structure is necessary to help reduce teenage unemployment.

"The whole thing is like a game of Simon Says," notes Cliff Kinney superintendent of Salem Community Schools, Salem, Ind.

"But in this case, I think the feds forgot to say 'may I.'"

According to many respondents, the government forgot to consider a lot of things before passing the minimum wage increases.

"Big city guidelines should not be forced upon our rural economies, which consistently run 20 to 25 percent below metropolitan areas," complains John Fletcher, owner of Fletcher Jewelers, Baraboo, Wis.

Robert E. Jackson, president and publisher of Anderson Newspapers, Inc., Anderson, Ind., says: "Such increases in the minimum wage eventually will close off huge sources of income for all young Americans." He suggests:

"Congress should take official note of a law it didn't pass, namely, the law of diminishing returns." □



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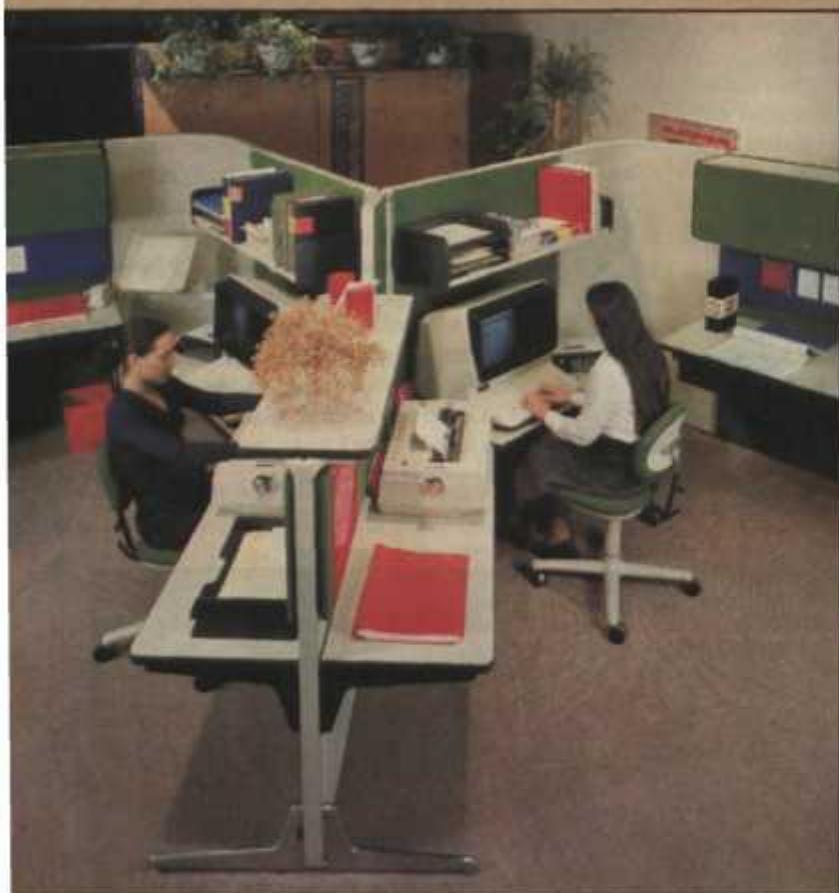
OFFICE EQUIPMENT:

Electronics Empties the Typing Pool

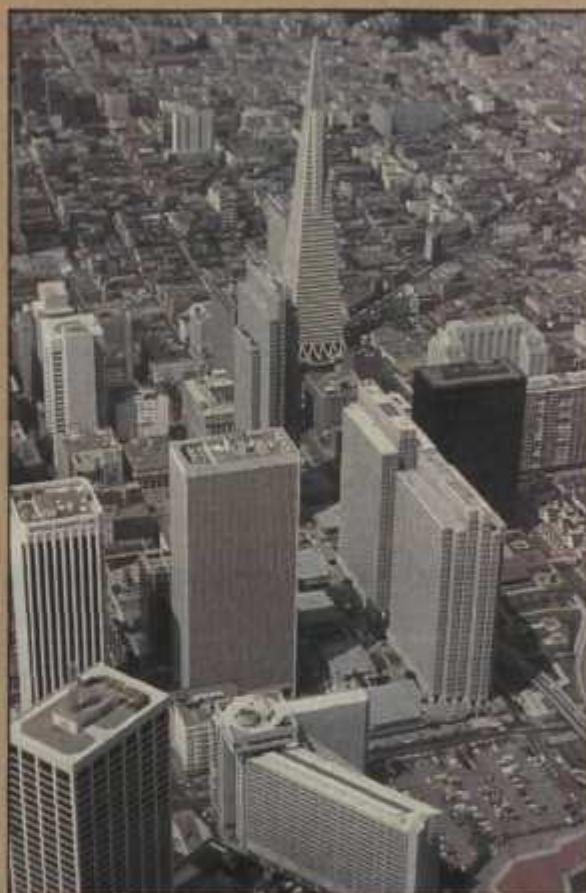
Nation's Business
**INDUSTRY
SPECIAL
REPORT**



By Michael Thoryn



Fast electronic communications and open landscaping are integral parts of the "office of the future." Work stations, such as those designed by Herman Miller, Inc., often replace walls and conventional furniture.



Large complexes like Embarcadero Center in San Francisco house the growing number of office workers.

TEXTILE MILLS supplanted household industries in the U. S. as far back as 1790. Assembly lines have speeded auto production since 1913.

And in the 1970s, the industrial revolution has finally reached one of the last outposts of manual labor—the business office.

Long the realm of typewriters and telephones with copiers in a corner and a sacrosanct computer room tended solely by specialists, the white collar workplace is digesting a remarkable number of versatile new products designed to speed business communication.

Office worker productivity, which has

lagged far behind that of manufacturing workers, should improve as such devices as memory typewriters with video display, ink jet printers, minicomputers, and facsimile machines become standard equipment.

Billion-dollar market

More than 100 firms, led by office technology giants such as International Business Machines, Xerox, Burroughs Corp., Eastman Kodak Co., Exxon Corp., and 3M Co., are competing for shares of the burgeoning market. While there are many ways of defining this market, industry analysts generally agree that sales are at least in the \$6 billion to \$7

billion range with the \$10 billion level reachable in the next five years.

According to International Resource Development, a market research firm in New Canaan, Conn., the current stock of office equipment includes about 30 million telephones, 26 million pocket calculators, five million typewriters, 1.5 million copiers, and 300,000 word processors.

All these totals are likely to grow because the U. S., Europe, and other developed regions are more nearly information and communications societies than any other kind.

Marvin Field, president of Field Research Corp., says it well: "Most of our work force are neither on the farm nor in

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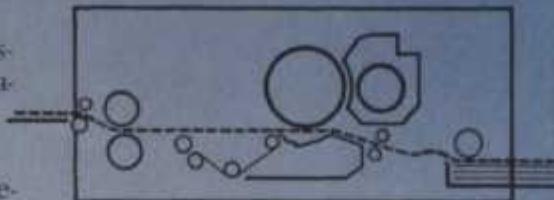
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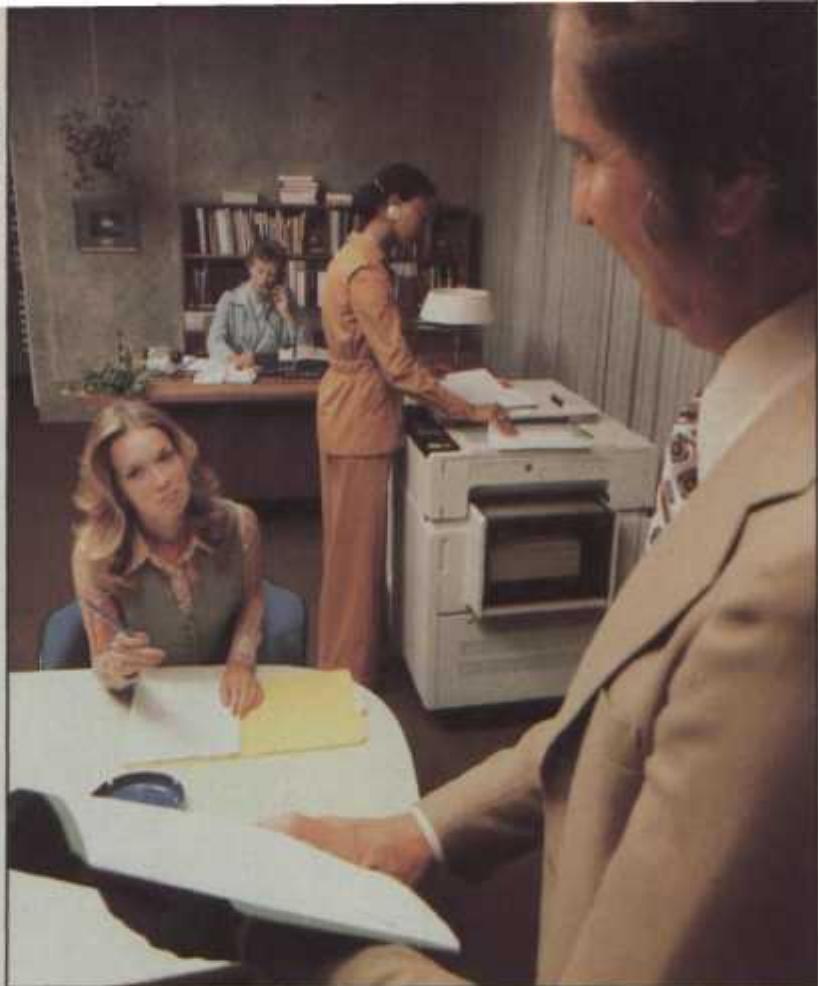
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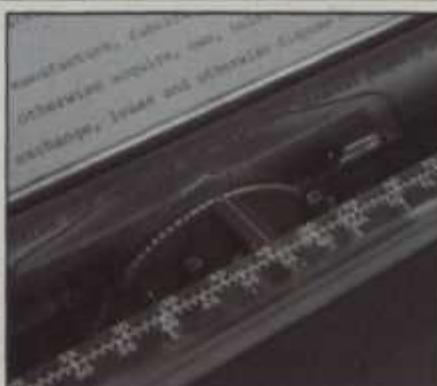


The introduction of easy-to-use dry copiers revolutionized office work. Some machines are quiet enough to be used in the middle of busy offices.

To handle the rising volume of telecommunications traffic, AT&T Long Lines Division is installing fast electronic switching systems.



Technical innovations have slashed the cost of electronic equipment such as calculators and memory typewriters. IBM makes its electronic typewriter at this plant in Lexington, Ky.



The key to successful word processing is letter-perfect automatic retying of complicated documents. IBM's daisy wheel can print 55 characters a second.

the factory. Today most of us—in fact more than 50 percent of our work force—hold a pencil, a piece of paper, or a conversation."

Certainly, improvements to boost hard-to-measure clerical and managerial productivity and reduce soaring office overhead costs—as much as 30 to 50 percent of total costs in U.S. corporations—are long overdue.

According to Creative Strategies International, a research firm headquartered in San Jose, Calif., office productivity has increased by only four percent in the past decade in contrast to an almost 90 percent rise in industrial productivity.

The office remains one of the most labor-intensive sectors in U.S. industry. Xerox says more than \$54,000 worth of agricultural machinery backs up each farm worker. In manufacturing, the capital expenditure per worker is more than \$31,000. But for the more than 44 million office workers, the figure is an unimposing \$2,300. And Xerox notes that office salaries, which are rising six to eight percent a year, contribute to the overhead cost squeeze.

John J. Connell, executive director of Office Technology Research Group, Inc., in San Marino, Calif., says: "The need to increase office productivity and reduce office costs is becoming more and more important to management—

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hence the drive for more powerful technological aids."

While office technology becomes commonplace, human factors such as job satisfaction must also be considered.

Robert L. Fronk, who analyzes office trends for Arthur D. Little, Inc., a management consulting firm based in Cambridge, Mass., says: "The true payoff of many of the new automated systems will lie in enhancing the capabilities of individuals to do their work, in saving them time, and in providing them with better information. It will not be in simply automating present procedures in order to perform them more cheaply."

Word processing trend

The often misunderstood concept known as word processing is leading the efforts to increase office productivity.

There are probably as many definitions of word processing as there are people who use the system and companies that manufacture the equipment. But the heart of the idea is greater efficiency in communicating.

Word processing essentially started at IBM which began developing it more than 25 years ago. The first true device did not appear until 1964, when IBM introduced the magnetic tape Selectric

typewriter. It was an automatic editing machine that could store typed copy electronically and replay it, error-free, at 150 words per minute.

Five years later, the company introduced a Selectric that recorded on plastic cards coated with magnetic powder. Each card could record a single page.

Word processing began to offer distinct benefits: easier revision of correspondence, mass production of personalized letters, and more efficient use of mailing lists.

Although these advantages are important, Donald C. Vadnais, department manager of 3M's business communication products department, says: "The key to word processing's present popularity is the fact that the text needs to be keyboarded only once."

"Particularly with longer, more involved documents—such as in the legal, accounting, or technical fields—the fact that unchanged text is automatically re-typed letter-perfect during revision is a tremendous advantage. Each successive updating can produce a new electronic record, which preserves the latest revision for printout or for more revision."

Mr. Vadnais says word processing can achieve productivity gains of 100 to 500

percent in document production. A bonus is that "business can finally monitor and measure productivity of the clerical function."

Too expensive

Although many smaller businesses still find editing typewriters and video terminals too expensive to buy or lease, almost everyone investigates word processing when looking for new equipment.

Vernon C. Jobson, director of office system product marketing at IBM's office products division, says: "The normal process now is to consider this equipment at least. A few years ago, the normal thing was to hire another secretary and buy another typewriter."

Such receptiveness is fueling word processing growth. Mr. Jobson expects sales to double in about five years. Other experts are even more optimistic, predicting sales growth from \$700 million in 1977 to more than \$1.5 billion in 1981. And as service industries take a growing portion of the U. S. work force, a more capital-intensive office is even more likely.

Jargon of its own

Like any specialized industry, word processing has spawned terms that are confusing to the uninitiated.

For example, floppy disks are flexible, thin platters of magnetic tape used for information storage.

Printing is often done via a daisy wheel typing element—a solid black center with type on the outside of the wheel—at 55 characters per second.

As electronics becomes more important to office work, communicating ability may be the next step for word processing. Some units can already transmit a document composed on one unit to another machine.

Larry J. Wells, director of Creative Strategies' business and communications equipment group, says: "Once the worker becomes acquainted with the use of a typewriter for communications, it is a short step to the use of the typewriter as a data terminal to communicate with a computer for storage, retrieval, and processing of information."

As a result of such computer and word processing tie-ins, Mr. Wells expects the next five years will see a convergence of data processing and word processing functions.

Already, word processing sales gains are paralleled by zooming sales for small computers. Management Assistance, Inc., a manufacturer of small business computers, says installations nationwide

Look-a Lot—Before Leaping

Switching over to full-scale word processing as Allegheny Ludlum, Inc., of Pittsburgh did in 1977 is difficult but worth the trouble.

"The effort has paid off handsomely in quality and in cost effectiveness," says Lawrence E. Mullen, vice president of personnel and organization development.

Here are some basic principles Mr. Mullen has distilled from Allegheny Ludlum's experience:

- Consider the change fully before making a commitment. Word processing is not just fast typewriters. It is a fundamental change in the way the office operates from senior manager to clerks. Procedures and forms will be altered. Hiring and training practices will need to be overhauled.

- Get expert help from the outset. The company had no experience in equipment selection, and the staff was too lean to provide the sheer hours of planning effort needed. A consulting firm, Meredith Associates, Inc., of Westport, Conn., was hired.

- Have as many dry runs as possible. Procedures should be tested thoroughly before implementation.

- Simplicity of operation and repairs is critical in choosing equipment. The smooth functioning of the entire system is far more important than the characteristics of one machine versus another's.

- Make showcases of the word processing centers.

An attractive, smoothly operating center is important to the internal public relations campaign which is needed to overcome resistance at every level.

The brief annals of word processing are full of stories about executives who moan about being "lost without my girl" and secretaries who cling with a death grip to their beloved typewriters.

"The ultimate payoff," Mr. Mullen says, "is in dollars. If we were still using the old system, we would need 70 more secretaries at a payroll cost of \$1.25 million."

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totaled 48,000 in 1977 and will soar to 225,000 by 1982.

The driving force in the small computer boom is something rare in today's inflationary society: getting more value—computing power—for less money. The computing ability of a machine that filled a large room 25 years ago is now con-

tained in circuits that can be held in the hand. Prices have dipped as low as \$15,000 for a system consisting of a central processor with display screen, a disk memory, and a document printer.

Small business has been the primary market for the small computers—they are used for such jobs as payroll, ac-

counts receivable, inventory control, and an earlier look at the monthly statement.

According to Ryal R. Poppa, president of Pertec Computer Corp. of Los Angeles, that's just the beginning.

"Small computers are going to become personal in nature. We'll have one for each person. Frequently, they'll be dedicated to a specific task, but they will still be full-fledged computers that can be utilized for other tasks as required," he says.

Need to move information

Another reason for the growing popularity of small computers is the need to improve the flow of information, and telecommunications is the medium.

"The ability to move information from one machine to another is a key underlying technology in the changing office," says Mr. Connell.

Office machines that "talk" to each other are far different than those of 102 years ago when Alexander Graham Bell sent his voice over a wire. Upon being informed of this, the chief engineer of the British post office was asked: "Do you think this machine will be of any use in Great Britain?"

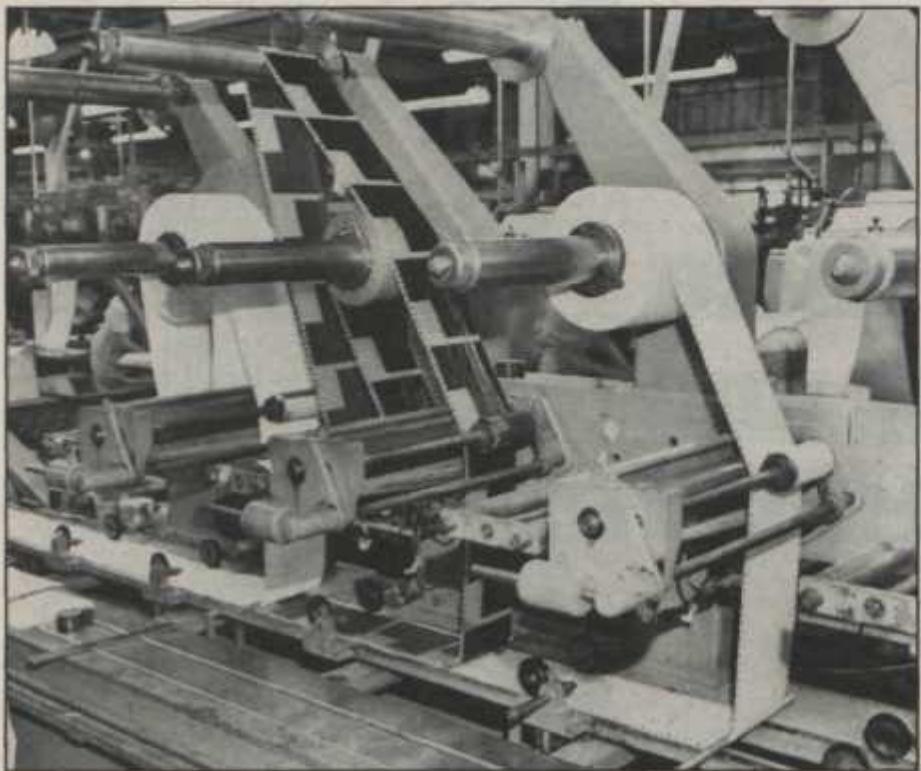
He replied: "No, sir. The Americans have need of the telephone, but we do not. We have plenty of messenger boys."

Despite this lack of foresight, a telephone appears on almost every office desk today, even in England. And the telephone is becoming more versatile. American Telephone & Telegraph offers a full range of communications systems and plans to introduce an advanced service that would store data automatically, switch it to distant locations, and decode messages between incompatible computers.

AT&T vs. IBM

This service would bring AT&T into direct competition with data processing leader IBM and numerous smaller firms that provide data processing products and services. AT&T's more aggressive marketing strategy also provides a challenge for the 1,000 telephone interconnect firms that manufacture and market telephone instruments and communications switchboards.

Beyond this battle over technological ability to provide telecommunications, another giant may be crumbling. As many as 200,000 facsimile units dispatch electronic mail across the street or across the country using leased phone lines. With a peak speed of 20 seconds a page, the U.S. Postal Service is losing a lot of first-class business. So,



Manufacturers of business forms—a \$3 billion-a-year operation—expect steady growth in the next four to five years. These forms being produced by The Standard Register Co. in Dayton, Ohio, are designed to specifications.



Copies at the press of a button revolutionized the flow of information. The ubiquitous dry copier was invented by Chester F. Carlson in 1938, but the first convenient office copier, developed by Haloid Co., now called Xerox Corp., wasn't introduced until 1959.

Mr. Carlson shows off his first xerographic apparatus in this 1965 photo.



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The Push-Button Office

The office of the future is a switched-on place where vital business information will flow electronically at the touch of a button.

It will be ten or 20 years before the desk-top video console routinely replaces the paper-cluttered in-basket, but much of the technology of tomorrow's office is available today.

A small number of word processing machines is already able to communicate directly.

A smaller number of word processing units is hooked up to large computers for virtually unlimited storage capacity.

A tiny number of executives has video display terminals at their desks capable of providing access to a firm's entire information.

In the years ahead, says Dr. Vincent Giuliano, a consultant with Arthur D. Little, Inc., firms that want to keep a competitive edge will have "information terminals at every desk for two-way communication, word processing, data processing, data base access, file searching, electronic mail, and all other aspects of information management."

John J. Connell, executive director of the Office Technology Research Group, Inc., and an expert in the technology aimed at automating of-

fice operations, says: "Equipment such as word processing is brought in to increase clerical productivity, but more enlightened companies look on word processing as a management support system. They justify the equipment not on reducing secretarial expenses but rather by taking routine work away from the manager so he can devote his time to more creative activity."

Mr. Connell says faster communication of information "has the potential to allow senior management to look at different ways of organizing the business."

Raymond Kurshan, president and chairman of the board of Management Assistance, Inc., manufacturers of the Basic Four small computer, agrees.

"Management will be more efficient when the technological hardware available today is woven into a communications system not bounded by a single building," he says.

One of the other buildings might be the manager's home. Some analysts of emerging office technology say home terminals connected to the office data center could mean that some executives would have little need to leave home, save for occasional personal meetings.

the postal service is planning to get into the electronic mail business itself this year.

But by the early 1980s, even facsimile will be considered slow compared to rival satellite-based communications systems planned by Xerox and IBM for computer-to-computer data transmission and electronic mail.

The more familiar office equipment is changing, too. Since the invention of the dry photo copier by Chester F. Carlson in 1938 and its subsequent commercial development by Xerox, offices lacking a copier have become rare. A relatively new development is the color copier.

Since the early 1960s, copy quality and machine reliability have improved, while prices, like those of computers, have dropped. The most competitive market segment now is low-volume machines. In this area, Savin Business Machines placements exceed those of Xerox and IBM combined.

The next step for copiers has already

been made by Wang Laboratories of Lowell, Mass., which has a high-speed copier that can be linked to word processing equipment and can also be used as a facsimile device.

Both facsimile machines and copiers reproduce an original document; Wang, and others sure to follow, simply combined the functions.

Modular furniture

Despite such electronic devices as copiers that diagnose their own jam-ups, the most visible difference in the office from the time of Scrooge and Bob Cratchett is in the furniture.

Sales of modular furniture, task lighting, and movable walls that comprise the open office—already a \$2 billion-a-year business—have been growing at about twice the rate of conventional desks, fixtures, and stationary walls.

The Business and Institutional Furniture Manufacturers Association in Grand Rapids, Mich., says "the elimination of



3M's new facsimile machine can transmit a 250-word letter in 20 seconds.

permanent floor-to-ceiling walls results in more efficient use of expensive office space and lowers drastically the cost of making changes."

Lack of privacy, the principal complaint against open office arrangements, is muted by sound-absorbing partitions and the liberal use of plants.

Robert Propst, president of Herman Miller Research Corp. in Ann Arbor, Mich., and a leading designer of open offices, says open-plan offices are particularly well suited to "the integration of furniture and electronic systems that is rapidly taking place."

Boom in microfilm

Many other tools keep the office moving. For example: A boom may be coming for micrographic information storage.

The 3M Co. has introduced a unit that can capture anything a computer can generate on a cathode ray tube. Records for microfilm require only two percent of the space occupied by the same records on paper.

On the other hand, paper usage will grow at least ten percent annually for the next few years. International Resource Development says: "While the office is in for a period of striking change, the move toward faster reproduction of printed material will be more significant than the move from printed to nonprinted communication."

The evolutionary revolution occurring in the office today will lead to faster, more efficient handling of information and, hopefully, better management decisions.

Says 3M's Mr. Vadnais: "We're on the verge of moving the office out of the stranglehold of manual tasks and putting it on a productive par with the industry it controls and deals with."



To order reprints of this article, see page 64.

The Right Way to Control Inflation

The business community's solution to inflation focuses on the errors and shortcomings of the federal government

THERE IS one good thing about inflation, says Shearon Harris, board chairman of the Chamber of Commerce of the United States: "It is within the grasp of the American people to correct it."

Congress and the administration can help, too. In a letter to all members of Congress, Mr. Harris last month presented a list of inflation-fighting recommendations. Earlier, he presented recommendations to the White House, which had specifically asked for such a list.

The matter of controlling inflation tops the list of priorities of the National Chamber, and Mr. Harris says the biggest cause of inflation is the federal government, through deficit financing, cost-push legislation, and regulations. He urges that Congress and the White House work together to solve the problem.

Call for action

The recommendations to Congress, which convened last month, are:

- Limit the growth of federal spending to seven percent for fiscal 1980, or a total of \$527 billion.
- Provide across-the-board tax relief for all taxpayers so that the growth of federal tax receipts does not increase at double-digit rates. Reduced taxes, says the National Chamber, will lead to increased savings and investment—both good for the economy.
- Reform the tax structure to encourage adequate investment, including depreciation allowances more nearly equal to the cost of replacing equipment and buildings.
- Reduce the federal deficit below \$25 billion for fiscal 1980. This is sev-

eral billion dollars less than the President is calling for.

This calls for a tough budget-cutting policy. Mr. Harris says the difficult political decisions on where cuts should be made will be less difficult if a cut is made from every budget item. This way, he says, the charge of political favoritism can be countered.

• Defer the 1980 and 1981 increases in the federal minimum wage and provide a wage differential for young people. A Chamber analysis, based on studies by a Columbia University professor and three University of Chicago professors, shows a two-year deferral in the minimum wage would lower consumer prices by 1.6 percent by the end of 1981, increase purchasing power for the average American household by \$427, and create an additional 880,000 jobs.

A 15 percent youth differential also would lower consumer prices and would increase purchasing power and the number of jobs.

• Repeal the Davis-Bacon Act, which causes inflationary federal government construction expenditures. The General Accounting Office says the Davis-Bacon Act adds \$715 million a year to U.S. construction costs. The act requires certain federal contractors to pay workers no less than the average areawide prevailing wage.

• Reform federal government employee pay policy by requiring a complete overhaul of the Federal Pay Comparability Act.

• Require federal employees to contribute to the social security program. This could slow down the rise in social security taxes paid by employers and employees and result in lower consum-

er prices, thus increasing consumer purchasing power.

- Strengthen U.S. competitiveness in world trade which will, in turn, reduce inflationary pressures. The National Chamber contends this is best achieved through encouraging export expansion by removing regulatory and organizational disincentives to trade and by providing incentives in such areas as tax, finance, and technical assistance.

- Mandate economic impact statements for all proposed legislation and regulations, and urge Congress to reserve for itself veto power over proposed regulations.

- Review all federal programs and regulations periodically. If their continued existence cannot be justified, they should be eliminated.

Mr. Harris says: "The National Chamber recommends that each congressional committee exercise greater program oversight, especially oversight of excessively costly regulations and overstaffed regulatory agencies."

Without new authority

In his letter to President Carter, Mr. Harris listed anti-inflation steps the administration could take either partially or completely without new legislative authority.

"In our recent meeting with you and your key advisers, we were encouraged by the invitation to suggest ways you can fight inflation using your existing authority," Mr. Harris said.

"While we await your future actions, be assured of our efforts to cooperate in this all important fight against inflation, particularly efforts to slow the growth of spending, lower the federal

The Congressional Commitment

During last fall's congressional campaigns, Shearon Harris, board chairman of the Chamber of Commerce of the United States, sent a letter to each Senate and House candidate asking them to indicate their commitment to fighting inflation.

Each candidate was asked to answer 17 questions. More than 60 percent of all candidates responded. Of the 435 representatives elected in November, 171 answered the survey; of the 35 senators elected, 14 answered.

All respondents placed inflation as America's number one domestic problem.

Nearly all said they were supportive of sunset legislation, measures to provide more investment capital for business, and efforts to limit growth in federal spending to less than the growth of inflation.

Nearly all said they would support congressional efforts to reduce the spending deficit without increasing taxes, resulting in a balanced budget no later than 1982, and would support action to ensure that individual taxes grow more slowly than personal income.

More than 90 percent agreed with the National Chamber's positions on the Clean Air Act, government contracting, OSHA, regulatory costs, the federal pay system, and wage-price controls.

The Chamber seeks more flexibility for business to comply with require-

ments of the Clean Air Act and wants to avoid government mandates to use the most expensive control equipment when less expensive methods could do the same job. The Chamber favors the government's contracting-out functions when private enterprise can perform the work at less cost.

On regulatory costs, the Chamber wants proposed federal regulations to be accompanied by economic impact statements; it also seeks reform of the federal pay system so that government employees are not paid more than private sector employees for comparable work. The Chamber opposes all wage-price controls.

On the issues of welfare reform, small business costs, and national health insurance, about 85 percent of the respondents agreed with the Chamber's positions. To oppose legislation that would establish a guaranteed annual income under the guise of welfare reform, to support legislation exempting more small businesses from coverage under the federal minimum wage law, and to oppose a federally operated national health insurance program.

Seven out of ten of the respondents said they would support a two-year delay in the scheduled federal minimum wage increases, and 60 percent said they would support legislation to repeal the Davis-Bacon Act, one of labor's sacred cows.

deficit, and reduce policies that mandate cost and price increases."

These are the Chamber's recommendations:

- Defer a move by the Employment Standards Administration to increase substantially the number of executive, professional, and administrative employees covered by overtime provisions of the minimum wage law. The move would cost more than \$525 million a year. An official study commission is reviewing the minimum-wage law's economic impact and will have recommendations for coverage exemptions.

- Withdraw a proposal under which employers would have to provide equal benefits to male and female employees without regard to costs arising from actuarially significant sex factors.

estimates compliance would add \$18.5 billion to the \$10.5 billion already required to meet the 90-decibel standard. Industry believes effective, but far less costly, steps to protect workers from undue noise are feasible.

- Withdraw, postpone, or revise, in favor of more reasonable alternatives, OSHA's proposal for a generic standard to identify, classify, and regulate toxic substances posing a potential carcinogenic risk. Industry estimates capital costs alone for implementing this regulation would total \$88 billion, adding a full percentage point to inflation.

Physiological effects

The administration should establish standards on a substance-by-substance basis; should consider the many variables involving individual substances, the physiological effects of worker exposure and the economic-technological impact on individual industries; and should initiate rule-making only on the basis of acceptable scientific evidence derived from approved experimental design procedures.

- Prevent the Equal Employment Opportunity Commission from mandating additional paperwork burdens that would add to business costs and could hinder affirmative action programs.

- Review a proposed regulation by the Environmental Protection Agency that would cost the utility industry and all electricity consumers more than \$26 billion during the next decade, while reducing sulfur emissions by a mere 11 percent. EPA should set new source performance standards for electric utility boilers permitting a sliding scale of pollution control based on the percentage of coal burned.

- Promulgate a final national ambient air quality standard for ozone that reflects the consensus of scientific opinion rather than relying on a single, widely criticized study.

Final standards

EPA has set a standard of 0.1 parts per million, but overwhelming scientific opinion indicates no health hazards below 0.25 parts per million.

The Council on Wage and Price Stability estimates costs of implementing the 0.1 parts per million standard at \$14.3 billion to \$18.8 billion a year.

- Promulgate final standards setting new requirements for industrial water pollution discharge permits in a form mitigating the tremendous burden imposed on industry and state agencies. Regulations now proposed

would require a discharger to itemize on a permit application all pollutants, rather than just the toxic pollutants. Theoretically, if a discharger had to test all 129 pollutants listed by EPA, the cost to a company could be \$421,500.

- Promulgate provisions to regulate the discharge of hazardous solid wastes in a manner which is less inflationary and burdensome than those now contemplated. Regulations now being drafted would classify as hazardous 80 percent to 90 percent of the solid wastes produced by industry and possibly by residential home-owners as well.

Ambient air quality

- Speed up the evaluation of the national ambient air quality standard for suspended particulates and revise the standard to reflect correct scientific evidence that only dust particles small enough to be inhaled are the real cause of health problems from this pollutant.

- Authorize the Energy Department to delay implementation of the National Energy Plan for mandatory conversion to coal for industrial boilers.

- Accelerate the establishment of leasing objectives on the outer continental shelf and other areas under federal jurisdiction.

In addition, the Chamber recommends the following actions:

- Efforts should be made to identify \$5 billion to \$10 billion of proposed spending in the current federal budget that could be deferred or rescinded. Such an action would have favorable effects, real and symbolic, on inflation and inflationary expectations.

Ineffective programs

- Efforts should be made to reduce to \$25 billion or less the budget deficit for the upcoming fiscal year. Efforts should also be made to cut costly and ineffective programs in all areas, including defense and social programs.

- An improvement in federal workload productivity would permit a greater reduction in federal personnel than the 20,000 reduction planned by the President, with no change in the output of services.

- An unbiased review of federal pay levels, which Commerce Department data show to be 42 percent higher than private-sector compensation, should be instituted and total compensation brought into comparability with state and local governments and industry.

- Farm-price support policies should be modified, where possible, to in-

crease agriculture's contribution to the anti-inflation effort.

- The President should take appropriate action, particularly in the area of dollar support policy, to minimize the risk of damaging oil-price increases. Every effort should be made to decontrol the price of domestic oil.

- Executive Order 12044, which calls upon federal agencies to make extensive economic impact analyses in connection with proposed regulations, should be implemented fully. This is essential to achieve a balanced regulatory policy that weighs economic benefits as well as the social and political benefits of federal policies.

- The specific requirements of Executive Order 12044 should be upgraded to require agencies to estimate the overall cost of each proposed regulation. Estimates should cover not only agency costs but compliance costs, both capital and operating, and should express costs in terms of the effect on unit prices of the product or service affected.

Cost-push effects

- Procedures should be established to assist companies experiencing regulatory cost-push effects which, together with other factors, would lead to a breaching of the administration's voluntary guidelines on prices. Such companies should be able to bring the regulatory part of the problem to the White House for possible deferral or modification.

- An administrative appeals alternative should be established so that actions of regulatory agencies can be reviewed outside the agency involved. The Secretary of Commerce should review the total regulatory impact on industries experiencing great regulatory costs. Such review should identify regulations which are candidates for change or elimination.

Adverse economic effects of recent withdrawal from use of large tracts of land, as in Alaska, could be reduced by shortening the periods of temporary withdrawals, and by deleting or severely reducing proposals previously made for wilderness prohibitions.

- Greater flexibility to increase timber sales to meet high demand could be achieved by revision of the existing practice of treating wilderness study areas as de facto wilderness. To avoid the inflationary consequences of lost supplies of timber and other resources, additional recommendations for wilderness proposals should not be made.



National Chamber Chairman Shearon Harris says business must strive to correct the mistakes of government.

- Government controls on the rate of timber cutting in government-owned forests could also be eased.

- Stricter agency accountability to support the administration's anti-inflation policies in all of their legislative activities could be encouraged by requiring as part of all agency reporting on legislation not only budget cost but also economic impact analyses.

Mr. Harris has made numerous trips around the country, talking to business people about inflation and listening to their recommendations. He says America's business community is greatly concerned about inflation, and many business people tell him that government deficit financing and regulations are the prime causes.

Business sentiment

In a recent Chamber-Gallup survey of business executives, this statement and question were asked:

The administration estimates that federal tax receipts may increase by about \$64 billion, partly because of inflation pushing taxpayers into higher tax brackets. About one half of the additional receipts would be needed to maintain the current level of government activity.

How would you propose to use the remaining \$32 billion of receipts?

More than 80 percent responded that they would like to see the federal deficit reduced.

The National Chamber's recommendations have been given to the Congress and White House. Now, the decisions are up to America's elected leaders. □

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Washington
Update



PHOTO: JERRY SOALT

Dorman family get-togethers are for fun—with maybe a bit of business, too.

The Swiss Family Dorman

William Dorman is in the cheese business. So is Victor Dorman, Avram Dorman, Neil Dorman, Marjorie Dorman, Kenneth Dorman, David Dorman, Jeff Dorman, and Ned Dorman.

There are nine Dormans running the family cheese business that was started by Nathan Dorman in 1896 from the back of a horse-drawn wagon that meandered along the streets of upper Manhattan, offering eggs and the ends of butter and cheese. Today, N. Dorman & Co., Inc., based in Syosset, Long Island, makes, imports, and distributes cheese worldwide, with warehouses and plants in Wisconsin, Illinois, New Jersey, and Florida.

All the Dormans live somewhere on Long Island, except for David who runs the New Jersey packaging plant. They all socialize after work, they gather the entire clan for every holiday, and they even go to lunch together at a local restaurant every day. How do they stand all that togetherness? And why do all the Dormans end up in cheese?

The answers vary from Dorman to Dorman. Says Uncle Vic: "I think it's our easy attitude, our avoidance of pressures. Everyone takes on the responsibility he or she can handle, and then handles it. We try to keep it like a pleasant family club. Of course, we disagree at times, but we are all working for us."

One Dorman spent seven years teaching philosophy at the University of Wisconsin before deciding he really wanted to work in the family business. Another "couldn't get a job anywhere else. That's why I came to work for Dorman cheese."

Says Avram: "As the first of the third generation, I would say that all my life the one thing I wanted to do was to go

into my father's business. I never had any desire to do anything else. I am much older in the cheese business than my years."

Says Jeff: "It's a relaxed atmosphere. You know, business people come home, and they have to have one or two martinis to relax. We don't have any of that kind of pressure here."

The lack of corporate pressure and all that relaxation cut no slices off the Dorman sales acumen. From \$30,000 a year in Nathan's time to \$60 million last year, the business is a constant ferment of innovation in products, packaging, advertising, and marketing. Even the Dormans still in college have "great ideas," says Bill.

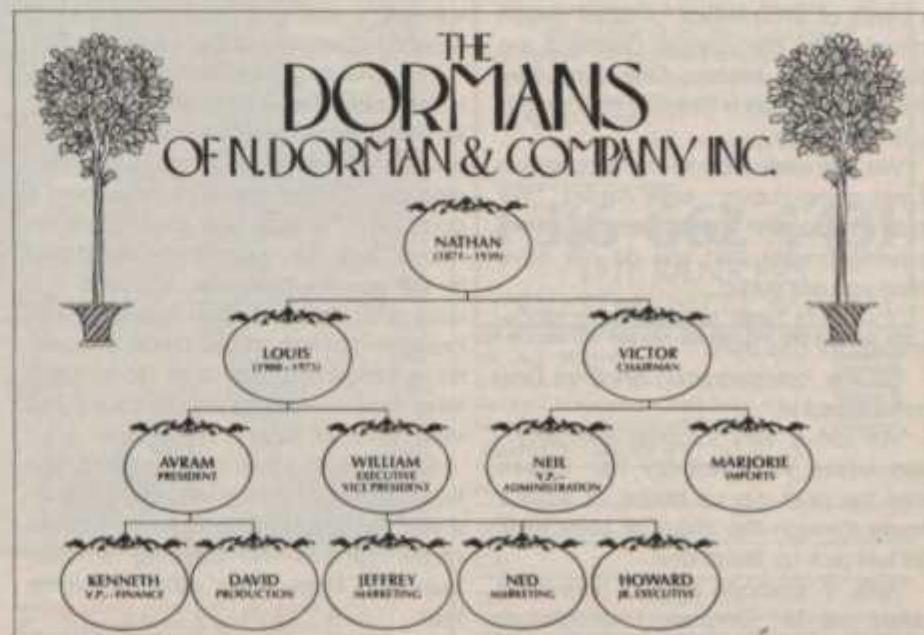
How does a \$60 million-a-year business compete with the big wheels like Borden Co. and Kraft Foods? "Very carefully," replies one young Dorman. "If they can do it, why can't we?" replies a collegiate Dorman.

"That reminds me of an old story," says Bill. "J. Paul Getty inherited \$15 million from his father and converted it into a personal fortune of well over a billion dollars. But he started with \$15 million. His old man started with zero and built it to \$15 million."

"Now, the question is, who did a bigger job: You can argue about that, but to me the answer is the old man. We are a long way from a billion-dollar business, but we have the nucleus here."

That nucleus can't help but grow, says Avram, because the cheese business is doing so well. "Let me give you the 60-second course on cheese. Consumption is up about 60 percent over ten years ago. The versatility of the product is second to none, except maybe bread, and the Europeans love bread and cheese."

"Today, you cannot entertain without cheese. You eat cheese for an hors d'oeuvre, as an appetizer, on soup, chili, and spaghetti, for dessert, as a snack,



It all began when Nathan Dorman arrived in America with two half dollars.



Frank Mori left the sticky business of syrups for the elegance of high fashion.

for breakfast, lunch, and dinner. There isn't a lunch box in America that doesn't have a slice of cheese most days."

"You know," added another Dorman, "the wine business says they carried cheese along to its present popularity, but we say we took the wine business along with us."

While the senior Dormans are thinking in terms of \$100 million or \$200 million annual sales, the younger Dormans are looking toward billions. One thing they all agree on today is keeping the company in the family.

"We are dedicated to the proposition of not going public," says Avram. "We enjoy the privacy. There is a lot of luxury in being private that you do not have when you are public."

"You don't have to answer to stockholders, for one thing."

"Or the government," another Dorman chimed in.

"We run a very informal company," says Uncle Vic. "Nobody has to see what the next guy up thinks, or write a memo through the chain of command. We just pick up the phone."

"And, if anybody around here ever called me Mr. Dorman, I would turn around and look for my father."

Why Is This Man Smiling?

Frank Mori smiled at the question. Why had he left a secure and brilliant future at General Foods Corp. to wander through the Elysian fields of consulting, tin cans, women's underwear, and designer fashions?

"General Foods was my first job," the president of Anne Klein and Co. replied. "I went straight there with my Harvard MBA. After a while, I got the feeling that if I stayed and kept up the good work, I might be running the place in 30 years."

Most bright young men who had enjoyed all the advantages of a good family, the right schools, and no big hang-ups about life would have grabbed the chance and found challenge in climbing the corporate ladder. Not Frank Mori.

"It occurred to me that a lot of very capable people had done my job before me—I was in charge of the syrups division—and if I disappeared, some very capable people would do the job after me. What I was doing didn't seem to make any earth-shattering difference. The sort of decisions I was making involved whether the next brand promotion special should be two cents off or three cents off."

Another reason behind Mr. Mori's departure was a latent longing to see what the rest of the business world was doing.

Once he left, Mr. Mori became a sought-after commodity. After some consulting work with a firm in Westport, Conn., he moved to the American Can Co. and later became head of its \$150 million paper products division. While leaping up the ladder, Mr. Mori was also looking ahead.

"I didn't want just another job. I really wanted a stake in this thing called American business. I had no capital."

The chance came with the Bali Co. which makes women's undergarments. Mr. Mori joined Bali as marketing vice president; three years later, he was running the company as well as owning a good part of it. Bali, later acquired by the Hanes Corp., gave Mr. Mori a foundation in the apparel business, although it is quite a stretch from bras and girdles to designer fashion. What made the path more precarious was that Anne Klein, three-time winner of the Coty award, had died in the full flush of her genius.

Starting with a few ideas in 1968, she had built her company into a \$12 million-a-year business. But fashion houses rarely survive the passing of their founders. There were other problems, too.

"The firm, like many others on Sev-

enth Avenue, was really run out of a checkbook," says Mr. Mori.

"When I arrived in 1975, the key people all knew their jobs very well, but no one really knew how much volume the company really did or what the markdowns totaled. Each one had his own information, but nobody had the overview."

"One person got every bill, looked at every invoice, and wrote every check."

Mr. Mori spent three months listening to people and then applied a few management controls and procedures to the business of creation.

"In high fashion design, you in effect reissue your business every three months when you bring out a new line," says Mr. Mori, who now owns a good piece of the firm. "We have been very fortunate. Women love our ideas."

Anne Klein and Co. cleared \$30 million in sales last year. The firm has branched into all kinds of accessories—watches, umbrellas, fragrance, jewelry, furs, and shoes as well as designs for sheets and pillowcases.

Overheads are down, inventories are minimal, and the creative people are at least speaking to the accountants.

Frank Mori has a lot to be smiling about.

Women Want a Wardrobe of Briefcases

Shannon Pont hefted the expensive leather briefcase. "It's finely made of the best materials, but there's nothing feminine about it. Nothing."

What is a feminine briefcase? Is there any such thing? Should there be?

Absolutely yes, says Ms. Pont, who is director of imports for The Luggage Gallery in New York City. But finding a briefcase that will hold the contents of a woman's purse plus all the files, newspapers, and reports an executive needs, and still look fairly feminine is next to impossible.

"They just aren't making such a beast," says Ms. Pont. "Unlike the men, who will buy one attache and carry it forever, women are fashion-conscious. Today, a woman might like the flap-over clutch in tan; tomorrow, she might feel like a burgundy portfolio. She needs a wardrobe of briefcases."

Women carrying briefcases is a recent phenomenon in the business world, as is

the presence of women at desks inside offices instead of outside the door at a typewriter.

"The luggage industry is still struggling to come up with exciting, high-fashion designs for women's briefcases and luggage," says Ms. Pont, who abhors the red, blue, or pink cases that male buyers think are feminine. "The closest thing I've found is a burgundy import, legal size, soft case, with a European handle and small pockets for things."

Ms. Pont's background in the luggage industry is something short of "Easy Street." In the early 1970s, she was vice president of a two-person sales company that was supplied by an Argentine leather manufacturer.

"We were selling leather when nobody had leather," she says. "Nobody wanted it either—that was the vinyl era."

The company went out of business during the 1974 recession, and Ms. Pont started selling handbags for the Argentine manufacturer. "They all had volatile tempers," she says. "I got out in 1977. I had to find some normal people to work for."

That wasn't easy. Ms. Pont spent several months going to trade shows looking for work. "It seemed like ages," she says. "I had two children to support, and

PHOTO: BANNER INT'L.



Shannon Pont added leather-look vinyl luggage to The Luggage Gallery's line.

a mortgage, and the usual monthly bills."

Along came The Luggage Gallery, part of Seward Luggage, and its president, Peter Dayton, who was looking for just the right person to establish the import business he had begun.

"He believed, and rightly as it turned out, that leather and other natural products were on their way back. One thing I found out quickly: at the management level, the industry is dominated by men. But the primary purchasers of luggage and briefcases are women."

Today, the luggage industry is expanding its horizons, says Ms. Pont, because more and more people are traveling. And they are traveling light, "because God knows where you can find a porter these days."

"So the trend is toward big totes, carry-on cases, and garment bags, anything to help the traveler get on and off planes faster," says Ms. Pont. "Good design and quality are vital. No business traveler wants to look like a schlep with a shopping bag."



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WORLD ECONOMIC OUTLOOK

Trade and Growth:

THE UNITED STATES is one of the few countries that will run the risk of a mild recession this year, says Dr. Jack Carlson, chief economist of the Chamber of Commerce of the United States.

High inflation will plague the United States and other nations, but there is a promise of improvement in the U.S. balance of payments. The trade deficit is expected to drop from an estimated \$35 billion in 1978 to \$21 billion by 1980.

The United States led the world recovery in 1976 and 1977, but tight fiscal and monetary policy in response to high inflation will slow growth rates significantly in 1979 and the first half of 1980.

Recovery from the 1975 world recession has proceeded with great variations of growth rates and economic policies among countries, causing trade imbalances and higher inflation rates than have occurred in past recoveries.

Slow economic growth

The world economy, Dr. Carlson forecasts, will grow more slowly during the next two years than the past two as government policymakers react more cautiously to persistent inflation and unhealthy trade surpluses and deficits.

These are the overall conclusions from the latest world economic outlook by the National Chamber Forecast and Survey Center.

Domestically, high inflation is expected to continue and perhaps increase somewhat during the next two years because of higher prices for crude oil, other industrial raw materials, and food at the retail level.

Fueling inflation further will be continued high labor costs, rising value-added and other cost-push taxes, increases in government regulatory costs, and more attempts to restrict imports.

Productivity is expected to grow slowly during the next few years since investment in equipment and structures will continue below rates experi-

enced in the 1960s and 1970s. New plant and equipment spending has edged steadily downward since 1965.

Lower investment is anticipated for a number of reasons. Among them are:

- Lower capacity utilization because of slower growth in world output.
- Lower rates of return on new investment because of escalating wage

and material costs, business taxes, and governmental regulations.

- Currency unrest created by high inflation rates.
- Emergence of new suppliers of manufactured goods in less developed countries.
- Restrictions on imports and other forms of protectionism.

MERCHANDISE TRADE BALANCE

(Billions in Current U.S. Dollars)

| | 1976 | 1977 | 1978 | 1979 | 1980 |
|------------------------------------|------|------|------|------|------|
| Developed Economies | -14 | -16 | -3 | -6 | -5 |
| United States | -6 | -27 | -35 | -23 | -21 |
| Europe | -22 | -15 | -3 | -8 | -8 |
| West Germany | 17 | 20 | 24 | 24 | 24 |
| France | -4 | -2 | 2 | 3 | 3 |
| Rest of Europe | -11 | -3 | -29 | -35 | -35 |
| Japan | 10 | 18 | 25 | 21 | 17 |
| Developing Economies | 35 | 35 | 21 | 23 | 20 |
| Centrally Planned Economies | -2 | 4 | -2 | -3 | -3 |
| U.S.S.R. | -1 | 4 | 1 | 2 | 1 |

Source: Forecast and Survey Center, Chamber of Commerce of the United States.

WORLD INFLATION

(Percent of Change)

| | Actual | | Forecast | | |
|---|--------|------|----------|------|------|
| | 1976 | 1977 | 1978 | 1979 | 1980 |
| World¹ | 12.3 | 13.3 | 12.1 | 12.9 | 13.3 |
| Developed Economies² | 8.0 | 8.4 | 8.6 | 8.8 | 9.0 |
| United States | 5.3 | 5.9 | 7.4 | 7.9 | 8.1 |
| Europe | 10.6 | 11.5 | 10.3 | 9.6 | 9.2 |
| West Germany | 3.2 | 3.7 | 2.9 | 2.8 | 2.6 |
| France | 9.2 | 9.6 | 10.1 | 8.2 | 7.5 |
| Japan | 6.5 | 6.2 | 5.2 | 5.2 | 6.8 |
| Developing Economies³ | 31.0 | 30.2 | 22.0 | 22.9 | 22.3 |

1. Gross national product or gross domestic product used as measure of inflation.

2. Includes the 24 members of the Organization of Economic Cooperation and Development, Yugoslavia, and South Africa.

3. Includes all countries that are not members of OECD or centrally planned economies and excludes South Africa and Yugoslavia.

Source: Forecast and Survey Center, Chamber of Commerce of the United States.

All Ahead Slow

World trade is also predicted to grow more slowly during the next two years. Trade imbalances created by huge oil price increases, large balance-of-trade surpluses in Japan and West Germany, and a large national deficit in the United States will continue to retard improvement.

Large exchange rate fluctuations are beginning to have an effect on world trade.

Those countries whose currencies have appreciated will face slow growth of investment, jobs, and consumer expenditures.

Slower world GNP growth

Slower economic growth in the United States, continued currency unrest on foreign exchange markets, high worldwide inflation, and sluggish world trade will hold the growth of the world gross national product below four percent this year.

World GNP grew at the healthy clip of five percent in 1976, the first year of recovery from the 1975 recession, but dropped to 4.6 percent in 1977. It slowed still more, to 3.9 percent, in 1978, although it is expected to pick up to 4.2 percent in 1980.

The persistently high rate of world inflation is expected to continue to erode consumer and business confidence, constrain governments from stimulating their economies, and aggravate existing trade imbalances. The latter may push countries into adopting more protectionist policies, according to the forecast center.

Higher inflation rates

World inflation increased by 12.3 percent in 1976 and 13.3 percent in 1977. Although world inflation slowed to 12.1 percent in 1978, it should expand to 12.9 percent this year and to 13.3 percent in 1980.

In the industrial countries alone, inflation increased eight percent in 1976 and 8.4 percent in 1977. It is expected

to grow at slightly faster rates through 1980, increasing 8.8 percent in 1979 and nine percent in 1980.

Also, the sluggish growth of new plant and equipment spending has affected the industrialized nations by slowing down productivity growth and altering world competition in certain key industries.

As competition between countries changes and world inflation rates stay high, the risks of protectionist policies increase. This leads to uncertainty in the business community and results in less capital formation.

Productivity in the industrial countries grew at an average rate of 4.5 percent from 1950 to 1968. During the past ten years, however, that rate has declined 3.7 percent. The productivity growth rates of all major economies registered declines, with Western Europe dropping from 5.2 percent to 4.4 percent, North America from 2.8 percent to 2.4 percent, and Japan from 9.7 percent to seven percent.

The serious trade imbalances among Western Europe—especially West Ger-

many—Japan, and the United States are forecast to continue through 1980.

The industrialized economies have shown a marked improvement in the balance of trade from a deficit of \$14 billion in 1976 and \$16 billion in 1977 to an estimated \$3 billion in 1978. The improvement is due largely to modest OPEC crude oil price increases and the depreciation of the U. S. dollar.

As a result of the latest OPEC price increases, effective this year, the deficit of the developed countries' economies is forecast to increase to \$6 billion in 1979.

Effect of stable dollar

But with the anticipated stabilization of the U. S. dollar in 1980, the balance of trade deficit of the industrialized nations should again begin decreasing, according to the National Chamber center.

The surplus in the balance of trade for the developing nations—including the OPEC countries—has declined from \$35 billion in 1977 to an estimated \$21 billion in 1978. This surplus is expected to climb to \$23 billion in 1979 as a result of the increase in oil prices. But as these countries increase their capacity to carry out development projects, the trade balance surplus should again decline, National Chamber economists predict.

Decline in trade deficit

The outlook for the next two years is for a decline in the U. S. merchandise trade deficit.

The U. S. trade deficit increased to about \$35 billion in 1978 despite the dollar depreciation; there is a lag between the time export prices decline and other nations begin buying more. However, as the economic slowdown begins to take hold in 1979 and dollar depreciation makes U. S. exports more price competitive, the deficit should fall to \$23 billion in 1979 and \$21 billion in 1980.

Inflation Pushers

"In the United States, sharp increases in retail food prices and inflationary government policies such as increases in the minimum wage, social security taxes, farm price supports, and costly regulations pushed the inflation rate to 7.5 percent in 1978. Little improvement is likely in 1979 and 1980 in the U. S. because of some excesses of fiscal and monetary policies. Adding fuel to inflation will be additional government-mandated increases in business costs and prices, such as further increases in the federal minimum wage."

World Economic Outlook
Forecast and Survey Center
National Chamber

Today's Technology Requires Managers With Quick Reflexes

Investment in production, integration of development and operations, and innovation from individuals are the keys to success

By William P. Sommers

INVESTING in long-range research and development, says an executive in private industry, is an act of faith which is being undermined by uncertainty.

The management of technology in the past ten years has become increasingly risky and complex both in the United States and abroad.

Some firms now consider long-range to mean five or even three years instead of the seven-year time span that has been commonly used in the past. This represents a major change in the way top management perceives the future. Managers attribute this shift in planning strategy to the increased uncertainty of market, regulatory, and economic conditions.

Success still possible

While the risks may be higher, technology has not outraced the ability to manage it. There are management teams today that are investing heavily in technology and successfully meeting the external forces which tend to complicate their operations.

These observations are drawn from a recent study of the management of technology for the General Electric Co. by the consulting firm of Booz, Allen & Hamilton, Inc. Twelve high-technology, growth-oriented industrial firms were surveyed.

Eight of the firms are based in the U.S., three are Japanese, and one is headquartered in Europe. Their product lines range from consumer durables and communication services to heavy industrial equipment and chem-

icals. Their combined revenues for 1978 were more than \$90 billion. Collectively, their research and development expenditures run about \$4 billion annually. On the average, this is more than one half of each company's reported annual after-tax profits.

One aim of the Booz, Allen & Hamilton study was to gain a better understanding of management's view of technology in today's operating environment. Another objective was to determine why some of the world's leading high-technology firms are successful, what management methods are used, and the relationship between these methods and the firms' successes in the marketplace, how the firms are organized, and how the innovation and commercialization processes are managed.

The study found that unexpected higher rates of inflation, reduced profitability, rapid rises in energy costs, shifting politics, and government regulations all have had a profound influence on U.S. firms' willingness to invest in future technological opportunities.

Emphasis on near-term

As a result, many managers are looking for more favorable market areas. Often, this translates into technologies with a near-term payback.

Some managers have reacted by avoiding investments in markets clouded by uncertainty. This is particularly true of some U.S. chemical firms, which have invested large amounts of money over the past five

years to comply with pollution and product safety regulations.

Government regulations, concludes the study, are fostering a type of competition which is not market-related. Instead of innovating to compete with other firms and meet consumers' needs, a significant portion of investment dollars is going to meet regulatory requirements. The result: Management is wasting valuable resources that might otherwise be invested to expand business volume and develop new products and processes.

Two pitfalls

Once products and processes meet the regulations, some firms are reluctant to change them and tend to cling to existing technologies for as long as possible in hopes of recapturing their initial investment. Either of these pitfalls can result in a firm finding its market position outflanked by a new competitor.

Looking ahead, during the 1980s new technologies will continue to quickly displace existing ones. This is especially true in such rapidly moving fields as electronics, communications, and computers.

Technology markets are worldwide, and competition can come from overseas as well as from domestic firms. The managers of European and Japanese firms surveyed, more so than their American counterparts, tend to view the world as their market, rather than distinguishing between a domestic and export market. This may be due to the large size of the U.S. mar-

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ket, which supported the early growth of many American technology-based firms.

Japanese and European managers historically have viewed their domestic markets as relatively restrictive. They have aimed from the outset at the U.S. and other overseas markets. Result: High-technology firms, especially Japanese, require their research and development people to travel overseas to learn firsthand about their competitors' technologies and market needs.

Top executive function

The management of technology in the most successful technology-based firms has become a top executive function. Says a corporation president: "If you are driven by technology, then you must manage it from the top."

A number of principles for the successful management of technology emerged from the study.

It is the responsibility of top management to set strategic objectives, assure that market and product objectives are met, and reward successful innovators. Top management that manages technology development principally through goal setting, cost, and schedule control may lose out in the marketplace.

Some of the most successful firms surveyed are investing heavily in manufacturing processes to improve productivity. The relative appeal of these investments, compared to new product and new service innovations, is making manufacturing a key strategic weapon in building and protecting market position.

Successful managers of a technology-based business require the continuous integration of development projects with the business plans of the operating units. The most successful top managers delegate a major share of the planning to the operating level, where technology planning is integrated with market, financial, and manufacturing planning.

Sophisticated planning

The high risks, large investments, and need to demonstrate potential benefits have led to a high level of sophistication in the planning processes of high-technology firms. One result is that the same tough discipline applied to measuring technical progress is also applied to marketing and manufacturing data to weed out marginal projects and select those with the most promise.

Moreover, the most successful managers offer individual innovators small sums of risk capital with relative ease.

Care is taken in the most successful high-technology firms to balance long-term business objectives against the short-term needs of the business. The firm's record in entering new markets, its growth rate in new technology areas, and the success with which manufacturing products and processes are replaced by new ones, are all measures of top management's ability to trade off long and short-term needs.

Successful managers view their technical manpower as a permanent and valuable resource. The competition for innovative technological talent is making top managers realize they have a precious resource in their technology staff which can be trained and enhanced in value.

Permanent employment and retraining are currently the cultural norm in Japan and many European countries. This is increasingly true in a number of American high-technology firms surveyed.

Barriers between technologists and management are blurred or eliminated in the most successful high technology firms.

A strategic asset

Changes are also occurring in the treatment of technological resources in the form of patents, licenses, and manufacturing know-how. Mature industries see patents as valuable in protecting some processes and technologies. Patent licenses are being viewed as strategic assets rather than as a commodity to be sold by an operating unit of the firm.

Technological leadership today offers no security for tomorrow. The current environment and external forces expected in the 1980s require top managers to be technologically aware and active in new product and process decision-making. Moreover, changes in management style may even be necessary for managers to cope with some of the problems they may encounter in the 1980s.

Although business risks have increased and uncertainties abound, the study showed that alert managers can still generate unusual successes for their firms through wise technology management.

DR. SOMMERS is president of the technology and management group for Booz-Allen & Hamilton, Inc., of Bethesda, Md.

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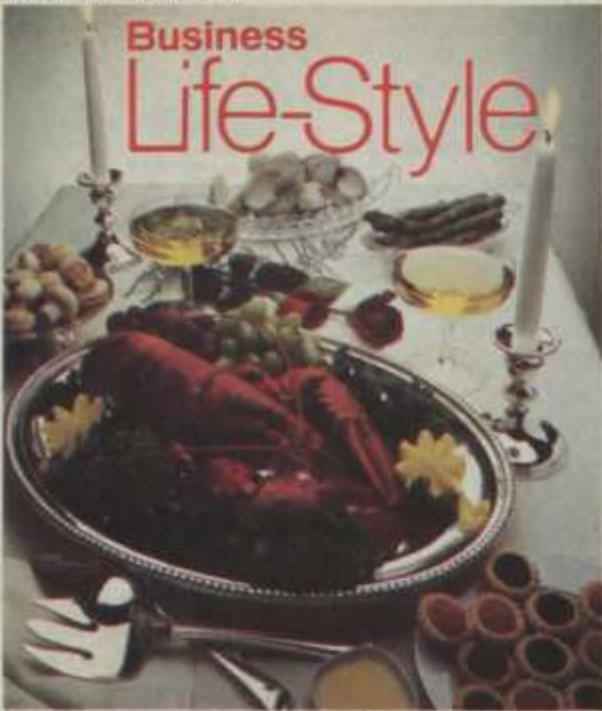
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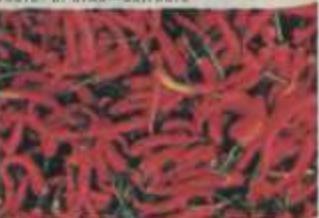


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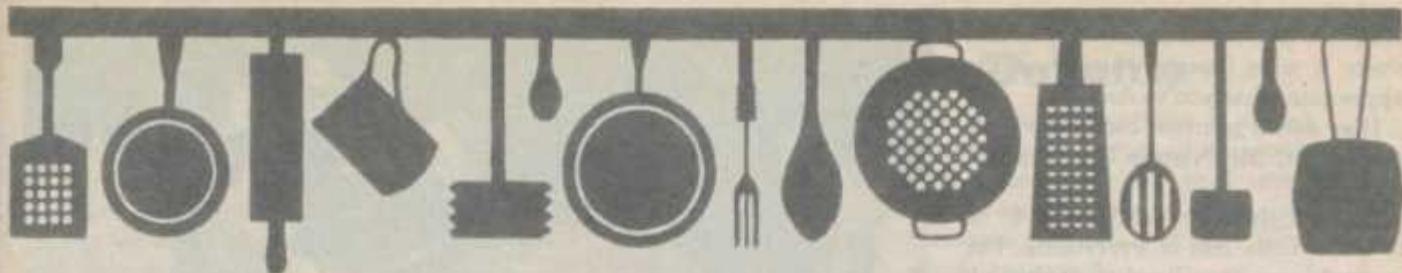
Gourmets create with staples, condiments, and imagination.

PHOTO: J. SCHREIBER—LEHMAN



Author James Beard, a renowned authority on gourmet cooking, obviously enjoys his work—and the results.

Interest in gourmet cooking has been stimulated in the American kitchen by television personality Julia Child.



GOUPMET COOKING:

The Joy of Sensuous Eating

By John Costello

SANDRA L. AGRESS hasn't had a really rotten meal in years. At least, not at home.

The insurance executive from Palm Beach, Fla., cooks as well as she sells. And since 1975, she has sold a million dollars' worth of life insurance—or more—every year.

Her hobby is gourmet cooking, which is being taken up by more and more Americans, a lot of whom are men.

Today, few American cities don't boast of at least a few gourmet cooking schools. The *New York Times* recently listed 48 of them in Manhattan alone.

Gourmet food and wine societies, like *Les Amis du Vin*, and *Confrerie de la Chaine des Rotisseurs*, or the International Wine and Food Society, are flourishing in this country. Local chapters often have long waiting lists of would-be members.

What do they get out of it besides a tasty meal?

Plenty, says Ms. Agress, a chartered life underwriter and manager of the Palm Beach agency of Life Insurance Co. of Virginia.

"I think it's really important to eat well," she says.

"I have a philosophy about people taking care of themselves, especially businesswomen. I cook as well for myself as I do if I'm having a dozen people over for dinner."

Also, a deft touch in the kitchen is a business asset.

"I was always a good cook," she says. "I learned by necessity; I began cooking for my father when I was 16."

"But gourmet cooking wasn't a serious hobby until about five years ago."

What prompted that?

"It became necessary for me as a businesswoman to entertain more. It's much nicer to bring clients to your home than to take them out to a restaurant."

"For one thing, it's a dreadful fight for a woman to try and pick up the check."

IN THE PAST, cooking was typically thought of as women's work. And the cook got no respect. Often, she was the butt of jokes by stand-up comics. For example:

Wife to husband: "Wake up, dear. There's a burglar in

the kitchen, and he's eating the rest of the pie I baked for dinner."

Husband to wife: "That's all right, darling. Go back to sleep. I'll bury him in the morning."

Today, things are different. "Cooking is an art form," says Norman W. Nielson, vice president for trust investments at the Mercantile Trust Co. in St. Louis, Mo.

"Once you've mastered basic technique, it's very creative. By basic technique, I mean you have to know how to chop and sauté, you have to do basic things that go together. You can master a fair amount of that out of cookbooks, but basically you have to develop a feel for it. It's a little like riding a bicycle."

Grandma cooking with a pinch of this and a pinch of that, he says, is a demonstration of technique. "She was riding a bicycle in the kitchen," he says.

MRS. NIELSON first learned survival cooking. "When I was at Claremont Graduate School in Claremont, Calif.," he says, "I had a room and a small kitchen. As an economic necessity—I couldn't afford to eat out every day—I did some of my own cooking and rather enjoyed it."

Then he went to work in St. Louis.

"About four or five years ago," he recalls, "I learned about this local gourmet cooking school, the Pampered Pantry.

"It had classes on Saturday when I was free.

"I thought: What the heck, I'll try a couple and see if I like it." He did.

Off and on, he's been taking lessons ever since. In Paris last year and in Rome the year before, as well as in St. Louis.

He enjoys cooking for friends at his high-rise apartment in the city's West End.

"I find it terribly relaxing," he says, "and very creative. Good chefs not only prepare food well but also pay a lot of attention to serving it in an attractive way."

"Classic French cuisine is some of the most beautifully prepared and beautifully served food that you could ever

imagine. But it's fun only if you can share it with friends who, hopefully, appreciate what you've done."

How does a gourmet cook keep from getting fat? Mr. Nielsen is a trim 170 pounds.

"I think the approach," he says, "is to eat a little less of everything. For example, my favorite dish is duck à l'orange."

"So I eat one duck," he says, "instead of three."

COOKING may have been man's first hobby. The earliest cookbook dates to at least 350 B.C., when Archestratus produced his *chef d'œuvre*.

America's first cookbook, *The Compleat Housewife*, published in Williamsburg in 1742, is older than the Declaration of Independence.

Among other recipes, it has a tasty one for hare pie:

"Skin your hare, wash her and dry her and bone her. Season the flesh with pepper, salt, and spice and beat it fine in a stone mortar. Do a young pig at the same time and in the same manner."

"Then make your pye and lay a layer of pig and a layer of hare till tis full. Put butter at the bottom and on top. Bake it three hours; tis good hot or cold."

Of course, first catch your hare.

NOT CATCHING the hare wouldn't keep Paul LaBruyere from his pots and pans. He would cook whatever he could lay his hands on.

"That's why it's a challenge," says the New Orleans wine merchant.

"Suppose you want to cook trout. But you go to the market, and the trout's not that good. You look for something that is. The test of a cook is to be able to prepare anything so it comes out well."

Mr. LaBruyere doesn't think his hobby is unusual in his hometown, birthplace of Creole cooking and New Orleans jazz.

"We tell visitors that in New Orleans there are only three things to do. Eat, listen to music, or make love."

"They're all sensuous pleasures, but eating is my favorite. You can do it three times a day, every day. And you can make a meal last an hour or two."

Mr. LaBruyere learned to cook because he sold wine. Customers would ask him what went with shrimp creole, for example.

"Well, you'd immediately think of a white wine," he says. "But there are a million and one different recipes for

PHOTO: JOEL FRIED



Serious gourmet cooks enroll in special schools, such as L'Academie de Cuisine in Bethesda, Md., near Washington, D.C. The basic course runs eight weeks.

shrimp creole down here. Some of them are quite spicy.

"I'd make a recommendation, and the customer would come back and tell me the wine didn't have enough body."

"Well, I couldn't keep on like that. So I started asking them about their recipes and experimenting with wines and various dishes. That's how I got hooked on cooking."

His shop, The Vintner, is in Metairie, La., a New Orleans suburb. At the time, he lived there with his grandmother.

"She was a fantastic cook," he says. "And I was sort of an apprentice under her wing."

His first attempts at cooking were flops. He survived them without having to call for a stomach pump, but it was a long apprenticeship.

How soon was it before he could be trusted in the kitchen alone? "Oh, at least five years," he says.

JOCK WULFFSON picked up the skill on his own. The inclination to cook was always there, but the opportunity to indulge in it came with his bride.

"Now, my wife's a good cook. But she's not in love with it," says Mr. Wulffson, an account executive with Tico Mortgagel Insurance Co. in Phoenix, Ariz. "She doesn't mind if I mess around in the kitchen."

Cooking would hold no charms for him either, he says, "if I had to feed a hungry family three times a day. It wouldn't be fun."

"But it is fun to whomp up a dish on a weekend or plan a big production dinner four or five times a year."

It's a challenge, like planning a military campaign.

"The secret to doing a dinner," he

says, "is to have everything come out right in the right sequence. I put in more time planning a meal than cooking it."

One of the things Mr. Wulffson plans for is to be with his guests, not slaving away in the kitchen.

"That means I'll spend three or four days beforehand picking out things that can be prepared ahead and put in the oven at the last minute, to cook while I'm having champagne or cocktails with my guests."

If you're a friend of Jock's, you're likely to get an occasional invitation you can't refuse.

"A couple of months ago," he says, "the butcher I deal with gave me some nice sweatbreads."

Mr. Wulffson called a few friends and invited them over. Then he threw together a simple meal of hors d'oeuvres and champagne, sweatbreads with an Italian-type sauce, home-baked French bread, and a spinach salad.

The salad came last, before the dessert. "That's European," Jock explains.

AT THE HOME of Parks Redwine, a banker in Fayetteville, Ga., a gourmet dinner is more than just a square meal.

Sometimes it's a history lesson, or a gastronomic visit to an exotic corner of the globe.

Mr. Redwine and his wife, Emily, belong to a small gourmet club.

"We started it in 1970," he says, "with three other couples. All of us cook as a hobby. We get together about once a month for a gourmet meal and take turns being host."

"Each couple takes care of some part of the meal. One takes the hors

On the Right Course to Epicurean Delights

The true gourmet approaches the daily task of self-nourishment as an intellectual exercise. He derives great pleasure from the table, but in symphonic fashion he demands appropriate preludes, themes, variations, movements, and codas.

He samples and savors each dish—seeking to enjoy the last morsel with the same relish as the first.

The gourmand, on the other hand, may be equally knowledgeable and appreciative of the culinary offerings. Yet he is distinguished from his more fashionable confrere by his portly girth and rock-like arteries.

In contrast to the gourmet who prefers intellectual warfare, the gourmand comes to table prepared to do physical battle. Every morsel must be consumed; every dollop of gravy obliterated from the plate. The gourmand is a dishwasher's delight.

For the true gourmet, Roger L. Yaseen, president of *Confrerie de la Chaine des Rotisseurs*, has concocted the following tidbits of dining advice:

1. Order foods of the season. Fresh food is always superior to frozen; frozen food is generally more desirable than canned. In the spring, baby lamb is available in abundance; in the fall and winter, it is generally frozen and claims New Zealand as its source. Look for asparagus and soft-shelled crabs in springtime, lobsters

and raspberries in summer, apples and game in the fall.

2. Avoid becoming a Francophile. The French produce interesting, ethnic food, but it is not necessarily the only form of nourishment—about 2.5 billion people prefer some other cuisine. The true gourmet is equally knowledgeable and enthusiastic about Chinese, Japanese, Indian, Italian, German, or American foods.

3. Taste everything. If you haven't tried it before, seize the opportunity when a different item appears on the menu or at the market.

4. Aim for variety. As delightful as the tastes of garlic and seafood are, scampi followed by bouillabaisse and Caesar salad is out. The reiteration of tastes offers no contrast. Similarly, a heavily sauced dish followed by a creamy cheese and a custardy dessert is both repetitious and fattening. If one course is steamed, another should be grilled; if one is poached, another might be sauced.

5. Vary textures and colors. Oysters followed by poached sea bass and vanilla ice cream is drab to the eye and soft to the palate. One cannot perform a symphony with only a string section. A flash of color and a bit of crunch are essential.

6. Forget about the perfect wine, for like the unicorn, no such beast exists. The Germans drink white wine with everything—a custom shared

with the less affluent Swiss. In the red wine-producing regions of the world, white wines are rarely seen, even with the lightest of foods. Appropriate balance is desirable, but there is no absolute standard.

7. Judge labels and sommeliers yourself. Wine has been the western world's most popular drink for more than 5,000 years, largely because it tastes good. If your selection offends your palate, it may be a bad wine, or simply too young. Your judgment has validity.

8. Substitute a different course for the prepared hors d'oeuvre when dining out. For example, split a hot fish course with your dining companion. The cost will be the same, but your pleasure will be significantly enhanced. With an understanding restaurateur, main courses can usually be shared between the diners, giving two courses for the price of one.

9. Eat sparingly. The true gourmet eats only those things that he finds good. He does not belong to the clean-plate club; he knows he is not obliged to eat every morsel. Even when he finds excellence, he practices restraint so that he may better savor the next course.

Adherence to these simple rules makes one a gourmet, bringing joy to one's doctor and less business to one's tailor.

Bon appetit.

d'oeuvres, appetizer, or soup; the second brings the salad and vegetables; the third does the dessert; and the host couple prepares the entree.

"We decide in advance on a general theme for the meal—a geographical area or an historical era. Then each couple decides what to prepare."

At their home, the Redwines were host for a North Atlantic brunch. The menu went like this:

Appetizers: mushrooms in brandy butter, hot Scotch herring in tomato sauce, Icelandic lumpfish caviar, and thick oat cakes.

Vegetables: bubble and squeak, cauliflower and cheese.

Entrees: orange and currant scones, venison, and pigeon pie with flaky pastry.

Dessert: Scotch trifle and treacle.

How does one discover these dishes? I look them up in cookbooks I find at

the local library," Mr. Redwine says.

How long does it take to work one's way through the menu? It took the club from 11 o'clock one Sunday morning to three in the afternoon.

PATRICIA A. REYBOLD, assistant to Ronald Lauder, vice president of marketing and sales at the elegant cosmetic firm, Estee Lauder, Inc., is no slouch at the stove, either.

The New York businesswoman is a member of the local chapter of the International Wine and Food Society.

She, too, likes to entertain friends at her spacious Manhattan apartment.

"Cooking," she says, "is a constantly expanding, growing experience."

It's also a way to set a dramatic scene, exhibit your skills, and be with people whose company you enjoy.

"I pay a tremendous amount of attention to details at dinner parties—

the crystal, the table setting. You have to create a whole image, an ambience.

"I don't find a challenge in hunting out obscure recipes or exotic dishes. I simply enjoy creating an environment which my friends and I can enjoy together.

"It does take time to prepare a good meal and put on a successful dinner party. But I also cook for my own pleasure.

"And that doesn't take forever.

"I'm a working gal. When I get home, I want to broil my fish, steam my vegetables, and wash a piece of fruit for dessert. I'm into a simple, elegant way of cooking."

So what does it take to get beyond the coal-burnt toast for breakfast, a charred hamburger on the patio grill, or a warmed-up TV dinner?

A very good chef put it this way: "Time, love, and a lot of butter." □

A Sensible Plan From Business to Fight Inflation

THE 96TH CONGRESS is less than a month old, but already it has a heavy agenda of proposals for dealing with inflation.

This development is not surprising. Inflation is the most serious economic problem this nation has faced since the depression of the Thirties. The health of our entire enterprise system is at stake.

The intensity of official concern over the inflation threat was spotlighted in President Carter's State of the Union address, budget proposals, and economic message, all of which emphasized the necessity for curbing the price spiral.

In addition, members of Congress acting individually or jointly have introduced many proposals for fighting inflation.

This stepped-up official recognition of the seriousness of inflation is welcome, if belated. The presidential and congressional recommendations contain many admirable elements.

At the same time, however, virtually all of the pending proposals suffer a common defect. None is sufficiently comprehensive to serve as a basis for the broad anti-inflation effort that current conditions require.

President Carter's approach, for example, is flawed by political considerations. He apparently decided it is more important to appease labor leaders than it is to face up to the inflationary consequences of the Davis-Bacon Act and the 46 percent increase now scheduled in the minimum wage by 1981.

The many congressional recommendations to curb spending are commendable, but they do not fill the need for strong action against regulatory excesses that cause price increases.

The obvious need is for a comprehensive

plan covering the broad spectrum of interrelated actions that must be taken in any realistic approach to curbing inflation.

Such a plan, fortunately, has been drafted by the Chamber of Commerce of the United States and constitutes an anti-inflation action plan behind which the entire business community can rally.

The business federation's approach is grounded on the recognition that government itself is the principal source of inflation. As Chamber Chairman Shearon Harris told a recent news conference:

"About 60 percent of the driving forces behind the inflationary spiral are directly attributable to government policies and actions."

Those policies, Mr. Harris said, include excessive spending that results in heavy deficits, regulatory and other cost-push legislation, and taxes that discourage investment. The Chamber plan deals with all three areas.

But why must business assume a leadership role when elected officials have produced so many strategies on their own?

Politicians, Mr. Harris explains, have not become accustomed to recognizing and correcting their own errors. Business people, on the other hand, operate under marketplace disciplines that often offer a choice of correcting mistakes or being eliminated by the competition.

The business community, he adds, "has a unique role of identifying what society's problems might be and setting in motion, through the democratic political process, the corrective action."

It is that type of responsibility the National Chamber is assuming in pressing its anti-inflation plan. □

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